THE MODERN CASE FOR SOCIALISM

JOHN PUTNAM

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By

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PREFACE

The historical significance of World War II has been grasped by few English or American thinkers. The historian of a thousand years hence will describe World War II, like World War I, as significant only as a further step towards (1) Socialism and (2) a World State. We shall leave the more obvious and more widely recognized role of World War II in the development of a new World State to other writers. The role of World War II in the development of Socialism, however, deserves emphasis here.

The chief historical consequence of World War I was the creation of a strong Socialist power in Russia. The consolidation and exploitation of this power during the next quarter century, the creation of the world's first Socialist economy, was the outstanding historical development of the period between World War I and World War II.

But from the very moment of their success in the November revolution the hard-headed leaders of Soviet Russia realized and prepared for the inevitable Capitalist counter-attack. Remoteness and war-weariness protected them against effective intervention by the victorious Allies, although several Allied nations, including the U. S., maintained small armies of intervention in Russia for some time after the November Revolution in a vain effort to restore Capitalism.

When the counter-revolution finally triumphed in Germany as a result of the unrealistic democratic

chivalry of the German Socialist leaders in 1918–20, war with Socialist Russia became inevitable, and the Soviet statesman saw the writing on the wall with remarkable clarity. After 1933, the USSR sacrificed butter for guns to a far greater extent than Fascist Germany. Russia's lack of industrialization, the foundation of modern military might, made heroic measures necessary and heroic measures were devised and faithfully carried out. The surprising achievements of Russian armies during the recent war, and the epoch-making consequences of these achievements, demonstrate that the ruthless industrialization of the first three five-year plans was a program guided by social genius.

The genius and heroism of the Russian Communists, however, could never have preserved Socialism in Russia except for a very fortunate combination of foreign developments due only in part to able Soviet diplomacy. Without powerful foreign allies, Russia would have been doomed to complete defeat. The preservation of Socialism in Russia, and the spread of Socialism throughout Europe which will inevitably follow the defeat of Nazi Germany, will be the result not only of brilliant and heroic Socialist leadership in Russia but of the fact that two of the greatest Capitalist countries, Britain and the United States, were also at war with Germany. The really stupendous paradox of World War II is that in it European Capitalism was destroyed by those two Capitalist states, Great Britain and the United States, in which Capitalism is most strongly entrenched. These two great states, frightened by the threat of German world conquest allowed their nationalism to overcome their Capitalist sympathies and hence fought side by side with

Socialist Russia. Thus, while victory for the United Nations has ended the threat of German world rule, it has also ensured the rise of Socialism throughout the continent. And the success of Socialism in Europe will gradually make Socialism in Canada and the United States inevitable, for reasons of international competition if for no other. German power will be greater than ever before once she has eliminated the many gross wastes and social frictions characteristic of Capitalism.

The European masses have already been converted to Socialism by the labors of two generations of devoted Marxian intellectuals and agitators, thousands of whom have been tortured and murdered by the police of Czarist Russia, Poland, Hungary, Bulgaria, Rumania, Italy, Spain and Germany. But their work has been well done. The victory of the British Labor Party in the 1945 general elections is the forerunner of many similar victories for the Left. By far the most urgent task facing American Socialists, therefore, is to prepare the American public for the coming post-war European social revolution. We must help American workers to understand and sympathize with their European comrades. We must persuade them of the inevitability and desirability of democratic Socialism in the United States.

The Modern Case For Socialism

Chapter I

INTRODUCTION

Karl Marx, the supremely great founder of modern Socialism, died in 1883 after a life of poverty and apparent defeat, an exile in a foreign land. Trained as a university professor, he had been refused a teaching position because of his liberal ideas. Active as the editor of a democratic newspaper, he lost his position when the government suppressed the paper. Participating in activities leading up to the Revolution of 1848, and, for a short time, enjoying the temporary freedom resulting from it, he was forced to flee upon its failure, first to Paris, then to Brussells, and finally to London. Here he spent the remainder of his life, in obscurity and occasional want, writing on Capitalism and Socialism and participating in the activities of the First International. Only eight people followed his body to its humble grave in Highgate Cemetery, London, in 1883.

How different the situation today! In 1917, only thirty-four years after the death of Marx, his devoted followers were strong enough to secure and retain control of the vast Russian Empire, covering one seventh of the land area of the globe, and have since advanced from victory to victory in the building of Socialism in that country. Innumerable streets and parks, buildings and great institutions now bear the name of the Socialist genius ignored by his contemporaries. Christianity required 300 years to conquer

an empire much smaller in size and population than that won by Marxian Socialism in thirty-four years.

Nor should Soviet Russia receive undue emphasis in this connection. Today Marx numbers his followers by the millions in all great, and in many small, nations. At one time or another in the last twenty-five years Socialists have occupied the highest government positions in England, France, Belgium, Germany, Sweden, Spain, Austria, Czechoslovakia, and Hungary. Nothing has been able to check their growth in power and numbers except the brutal dictatorship of Fascism, and even Fascism represents a step towards Socialism.

The leaders of Fascism very shrewdly adopted enough of Socialism to keep the masses temporarily pacified. This is an old trick of the enemies of progress. The British Tories, for instance, periodically extended the franchise in England in order to appease the masses and thus avoid even more drastic and desirable reforms. But the fact that Hitler was forced to give the German people some of the substantial features of Socialism, such as economic planning and job security, and to promise more Socialism than he was willing to give, an end to interest slavery and the overthrow of world plutocracy, indicates the true power of Socialist ideals in Germany.

What is the secret of the world-wide appeal and astounding growth of Socialist ideas? There is no single answer but rather many reasons. To the masses who live in poverty and insecurity, Socialism promises relative abundance and complete security; to workers entirely at the mercy of autocratic economic masters, Socialism offers industrial democracy; to the sons and daughters of the underprivileged, it pledges absolute equality of opportunity in education and economic life,

as well as the elimination of inheritance; to the unemployed it offers employment; to workers who have little freedom in the choice of vocation, place of work, hours of work, speed of work, etc., it offers far greater freedom of choice in all these fields. Is it to be wondered at that men and women respond to such promises?

The eventual victory of Socialism is not only certain, but of enormous historical significance. The conquest of the Roman Empire by Christianity caused very little if any change in the daily lives of the people, unless we venture to attribute the disintegration of the empire to that cause, but the triumph of Marxian Socialism in Russia has rapidly revolutionized every phase of the daily life of the people. Its triumph in other countries will bring equally great, if perhaps more gradual changes. It may be predicted with assurance, indeed, that the introduction of Socialism will change human nature and human society far more than any other political or social event in the history of mankind.

It will change human nature because it will change man's environment. The economic jungle in which survival of the fittest and grinding oppression of the least fit prevails will be replaced by a civilized coöperative economy equally adapted to the needs of the least fit and the most fit. In this connection it is well to bear in mind the fact that no matter how high the average or minimum level of fitness, there will always be approximately 50 per cent of the population who are relatively least fit. By eliminating insecurity and the fear of want, Socialism will change a world of fear and strife into a world of confidence and untroubled industry.

The changes in social and economic organization sought by Socialism are equally great. Social ownership and control of factories and farms, mines and oil wells, banks and stores, etc., will replace private ownership. This will permit very striking increases in the scale of production, the stability of production, the division of labor, the amount of research work, the use of machinery, etc. Moreover, all rent and interest will be added to wages, and the working class will be given democratic control over its economic leaders. All of these, and many other points, will be discussed in greater detail later on. Here we desire to stress only the unparalleled extent and importance of the changes which Socialism will bring.

Socialism is most commonly most briefly, and most accurately defined as "social ownership and control of the means of production." This means that in a Socialist society all land and capital—farms, mines, factories, railroads, warehouses, stores, banks, hotels, etc.—would be owned by the people and would be managed by leaders chosen directly or indirectly by the people. Socialism is a method of ownership of the places where we all work, and a method of selecting those who control our daily work. It does not propose to abolish either work or leadership.

Within these broad limits there is room for much difference of opinion. Socialists agree upon social ownership and control of the means of production, but they have different suggestions to offer as to how Socialism should be achieved, as to how property should be owned by the people, and as to how the people should select their economic leaders. This difference of opinion is natural and healthful. All groups of reformers have disagreed on the details of their reforms,

both before and after realization. Thus our forefathers who drew up and adopted the American Constitution could not agree upon any of its details; there were long debates upon each point and all decisions were the result of compromises between many men, no two of whom agreed completely on any point. All that is necessary to the introduction of any great reform is the agreement of a majority of its supporters on its fundamental principles and willingness to compromise on details in order to achieve these fundamentals. These characteristics were possessed by the members of the Constitutional Convention, and are today possessed by the Socialist movement.

Since 1917 the world Socialist movement has been divided into two groups, Socialists and Communists. The chief point of disagreement is concerning the proper method of achieving power, the Socialists supporting a legal parliamentary campaign, the Communists supporting a revolutionary overthrow of the existing governments and the establishment of a temporary dictatorship. This sharp difference of opinion is the result of the widely different conditions existing in the countries in which Socialism and Communism developed. Socialism developed in the advanced democratic nations of Northern and Western Europe. Communism developed in the backward autocratic countries of Eastern and Southern Europe. Both wings of the world Socialist movement have responded in the most intelligent manner to their environment, but both have made the mistake of advocating one single method of achieving power for use in all countries regardless of the great difference between them. Fortunately, this mistake is so obvious to most men, unconsciously if not consciously, that there are few Communists in the

United States or England and few Socialists in China. It is difficult to criticize the use of force and revolution in nations where no other method of obtaining a Socialist government is possible, and similarly it is entirely unreasonable to advocate the use of force and revolution in a nation where sufficient democracy exists to permit a peaceful change of government. Since we are writing for English-speaking voters in advanced democratic nations, we shall adopt the Socialist viewpoint throughout this work without intending to cast any reflections upon Communist strategy in undemocratic countries.

The purpose of this little book is to present the complete modern case for Socialism. Few comprehensive statements of the case for Socialism exist, and all of them make use of many arguments which are very questionable if not entirely unsound, such as the theory that labor is exploited or underpaid under Capitalism, the theory that business cycles of increasing severity are inherent features of Capitalism, the theory that new machines cause a permanent increase in unemployment, the theory that we face an immediate and restricted choice between Socialism and Fascism, the theory that wages cannot and will not continue to rise under Capitalism, etc.

In the opinion of the writer, the history of the next fifty years in the United States and England will be very similar to the history of the last fifty years. The great majority of the significant trends which have been in evidence during the past half century will continue throughout the next. These trends include rapid technological progress, a marked if irregular rise in real wages, a steady increase in the size of business units and in the division of labor, a constant expansion

of government control over private economic activities, a consistent growth of government ownership of public utilities, an expansion of the volume of free services provided by the state, a steady growth of social insurance, a marked if irregular increase in total rent, interest, and profits, etc. None of these facts weaken the case for Socialism, however. Socialism is desirable not because Capitalism is declining and forcing wages down, but because Socialism will raise wages far more rapidly than Capitalism.

An unusually large proportion of this book deals with the waste and inefficiency prevailing under Capitalism. We believe that arguments of this sort have more appeal to English and, particularly, to American voters than do arguments based on emotional charges of injustice and exploitation. In any case, they have been unduly neglected by Socialist propagandists, and we propose to make up for this neglect by giving them a detailed statement in this work.

Chapter II

THE RISE AND FALL OF CAPITALISM

In order to understand the nature and advantages of Socialism, we must first understand the nature of Capitalism, and the latter can be most easily and clearly explained by reviewing briefly its origin and rise. This task we propose to undertake in the present chapter.

It is rather remarkable that the first men to describe and explain the origin and nature of Capitalism were Socialists. In the *Communist Manifesto** (1848) Marx and Engels gave the first description of the origin and nature of Capitalism and the essential features of their analysis are today accepted by all economic historians. Perhaps the greatest intellectual achievement of Marx was the introduction of the idea of gradual and continual evolution into the field of social science even before Darwin had introduced it into the pure sciences. The concept of evolution has proved as fruitful and as epochal in the social sciences as in the pure sciences, and Marx deserves as much credit as Darwin for its development.

Capitalism, as Marx was the first to realize, is a very recent historical development, so recent in fact that as yet it has become dominant in only a few advanced nations. The great bulk of the world's population still lives in pre-capitalistic stages of economic

*This brief (12,000 words) work is the most important Socialist book ever published, and deserves the careful study of all students of Socialism. The present chapter is based upon it.

development. Even in advanced Western nations, where Capitalism has reached its maximum development, there are still certain very important industries, such as retailing and agriculture, which remain in a pre-capitalistic stage of development. Yet in spite of the newness and incomplete development of Capitalism, we already have a fully developed Socialist economy embracing one seventh of the land area of the globe and one twelfth of the world's population. Could any evidence be more conclusive as to the transitory and ephemeral role of Capitalism in the history of man?

Capitalism is the first product of the industrial revolution which began about 1775 in England and is ordinarily considered to have ended about 1850, although it has actually continued right on down to our own day, and promises to continue for some time to come. The outstanding features of the industrial revolution are the substitution of expensive power-driven machines for the small hand tools previously used by the workers and the concentration of these machines and the workers who operate them in large factories or enterprises. Every invention of a new and more expensive machine carries the industrial revolution one step further. Every improvement in methods of large-scale management does the same.

Before the industrial revolution in England and the United States, manufactured goods were produced by independent craftsmen working in their own small shops or homes with hand tools which they themselves owned. Such master craftsmen frequently hired one or more journeymen to assist them, and were training an apprentice or two, but the numbers of these latter classes were so small that most apprentices could look

forward to being first journeymen and then independent masters. This system of production, which we shall call individualism, was destroyed by the invention and introduction of new machines which were far more efficient than the old methods of production, and which were too large and expensive to be used in the small independent shop. For a generation or more the independent craftsmen tried to compete with the new factories, just as the small independent merchants are today trying to compete with the chain and department stores, but in the end most of them were starved out and forced to go to work in the new rapidly growing factories. This brought about a revolutionary change in the ownership and control of the means and process of production. Before the industrial revolution, master workers owned the tools they used and the materials upon which they worked, and journeymen and apprentices expected to become, and had excellent opportunities for becoming, master workers. If a master worker owned his place of work or shop and sold his goods directly to the consumer, as many of them did, he received the full product of his labor. Equally important is the fact that the master worker was independent; he had no foreman over him. After the industrial revolution, all this was radically changed. The means of production were now owned by a relatively small number of men, called capitalists, and the master workers, journeymen and apprentices had become machine operatives working for a wage, under the close supervision of a foreman, having few or no personal relations with their employer, and subject to dismissal upon a moment's notice.

The industrial revolution overthrew small-scale individual production and established in its place a system

of large-scale social production. But this new social production, with hundreds and thousands of men working together coöperatively in the same plant on the same product, is carried on with land, buildings, machines, raw materials, supplies, and goods in process, which are owned by a small group of capitalists. In other words, social production is based upon private ownership of the means of production. This is the basic contradiction of Capitalism.

The men who own the means of production control a necessity which is essential to the life of every individual. Under Capitalism the worker cannot even go to work without securing the consent of this capitalist class. This control over the lives of workers, moreover, is passed from one generation of capitalists to another by inheritance just as the estates and powers of the feudal nobility were transmitted from father to son regardless of merit or the will of the people. Capitalism is industrial feudalism!

In overthrowing small-scale individualistic handicraft production and substituting for it a system of large-scale social machine production, the industrial revolution also created the conditions necessary for the rise of business cycles. Independent artisans never reduced their output drastically on a nationwide scale in response to a decline in profits because they worked more for wages than for profits, and a small wage is better than none at all. But the capitalists who owned the new factories were interested in profits only. When profits decreased, they curtailed production and threw their operatives on the street, regardless of the effect upon the latter. Indeed, if any single capitalist had been unwise enough to continue producing at the old level for sentimental reasons, he would have been

forced into bankruptcy and compelled to discharge all his men. It was the system, not the capitalists, which was to blame for the periodic occurrence of large-scale unemployment.

As we have already indicated, Capitalism, the inevitable first product of the industrial revolution, came first in one industry and then in others. It began in the English textile industry and slowly spread to other manufacturing industries. It had long existed in shipping and foreign trade, and the invention and rise of the railroad gave it complete control over land transportation. The rise of public utilities, banking, and insurance created enormous new industries organized on a large-scale capitalistic basis from the very beginning. On the other hand, retail distribution is still in the midst of its industrial revolution, and agriculture has scarcely entered upon one. The professions also continue largely upon a small scale individualistic basis, although a rapid shift to large-scale corporate or government organization is under way.

The industrial revolution has not only advanced inevitably from industry to industry, ever conquering new fields for Capitalism, it has also steadily increased the degree of its development in and control over the industries already won by it. In other words, there has been a constant increase in the scale of production in industries already organized in a Capitalist manner. The big capitalists and the large corporations slowly drive out or merge with the small capitalists and corporations. Only repeated efforts by the government, and the fear of arousing additional government control, prevent the development of complete monopolies in numerous industries. Marx did not foresee this growing government interference with natural and de-

sirable economic trends, and therefore predicted the development of complete monopoly. He was the first to note the existence and appreciate the significance of this continual increase in the scale of production and control, which has now lasted for two centuries and promises to continue until the rise of Socialism carries it to its logical completion.

The industrial revolution has given rise not only to Capitalism, but to the social class which is destined to overthrow Capitalism. When the majority of workers were, or might expect to become, independent craftsmen owning their own tools and materials and receiving the full product of their labor, they naturally believed in and politically supported private ownership of tools and materials. But, as the industrial revolution separated the workers from their tools and their independence, changing them into propertyless wage workers, it destroyed the foundation for their previous support of private property. The faith of the workers in private ownership of the means of production tends to continue for a generation or so after its basis in existing conditions has been destroyed, and, as we have already indicated, this base has only been gradually and recently destroyed in most industries, and still continues to exist in certain important branches of the national economy. Socialism is slow in developing primarily because the industrial revolution is so recent and incomplete in most industries and has scarcely begun in others.

Every step in the extension and development of the industrial revolution tends to swell the ranks of that class of propertyless workers which is certain to realize sooner or later that its interests lie in social rather than private ownership of the means of production.

The Socialist movement is the political expression of the intelligent class-conscious members of this new working class. It is bound to grow, not only with every further advance in the industrial revolution, but also with every step in the inevitable intellectual adjustment of the workers to the changes already brought about by the industrial revolution.

The propertyless working class whose support of private property either has been, or will be, destroyed by the consequences of the industrial revolution consists not only of factory operatives, but of all gainfully employed persons whose income consists chiefly of wages or salary, and who are occupied in large-scale social production. The 1920-1940 decline in the number of factory operatives did not mean a decline in the mass base of the Socialist movement, for it was accompanied by an even greater increase in the number of propertyless white-collar workers engaged in large-scale social production.

There is no logical reason, indeed, why the salaried technical and managerial staff of our great modern corporations should continue to support private ownership of the means of production. Their services would be even more essential, their power greater, and their number larger under Socialism than at present, for Socialism would greatly increase the scale of production and the amount of technical work. Socialism would eliminate the landowners, the stockholders, and the bond owners, and it would lower the salaries of a very small class of senior executives of large corporations, but the very elimination of the owning capitalist class would be certain to place the technical and managerial staff at the top of the social and economic ladder. Sooner or later, corporation executives and

technical experts are certain to understand that their real interests lie, not with a small and largely hereditary owning class, but with the great masses of productive workers.

To summarize, Capitalism is the first product of the industrial revolution; Socialism is the inevitable second product. Before the industrial revolution, private ownership and control of the means of production was justified by, and well suited to, the small-scale individualistic system of production then existing. But, by destroying this method of production, the industrial revolution made a change in the form of ownership inevitable. Capitalism exists only during that short space of time in which the change in the methods of ownership lags behind the change in the methods of production.

Thus far we have followed the classical Marxian analysis of economic evolution. This analysis explains why Capitalism inevitably gives rise to Socialism in a period of peaceful evolution. However, in recent decades war between great industrial nations has become an additional powerful force working to transform Capitalism into Socialism.

The rise of mechanized totalitarian warfare has put a heavy premium on economic efficiency. Modern warfare is essentially an industrial competition. The nation which can produce the best and most tanks, trucks, airplanes, ships, guns and munitions has an almost overwhelming advantage. Socialism increases tremendously the ability of a nation to produce these goods because it eliminates the wastes of competition. Hence, nations at war inevitably tend to adopt innumerable Socialist measures. Advertising and salesmanship are drastically reduced. Patents, processes,

and ideas are made available to all producers. Manufacturing is concentrated in large plants because these are the most efficient and the easiest to control. Finished commodities are simplified and standardised. Trade marks are less important and some styles are frozen. Production is carefully planned on a nation-wide scale in such a way as to provide work for all men and millions of new women workers. Higher and higher income and inheritance taxes are imposed upon the rich. Inflation partly expropriates estates invested in bonds and mortgages. Labor unions are fostered and given a greater voice both in industrial management and in political affairs.

A Capitalist government is, of course, always reluctant to adopt these Socialist measures in time of war, even when they are essential to victory. They are only adopted slowly and under pressure, and are never carried nearly as far as they ought to be carried. However, every war brings a greater use of such Socialist measures, and during the recent struggle they were carried further than ever before. Moreover, World War II will be followed by World War III, and the necessary preparations for World War III will of course do much to speed the further growth of Socialism.

Now the war is over the American government is doing its best to abandon these war-time Socialist measures and restore the type of uncontrolled Capitalism which caused the great depression of the thirties. This attempt will probably be aided by several years of unusual prosperity due to the wartime accumulation of consumers' purchasing power. But another great depression is inevitable. Another and more radical New Deal will follow. Of course, this will occur under the

control of liberal Capitalists. We anticipate no sudden rise of Socialism in the United States after World War II. But one New Deal after another, with an occasional World War thrown in, will lead steadily and naturally to Socialism. And the post-war rise of Socialism throughout Europe will speed up this process by demonstrating the advantages of Socialism.

War speeds the rise of Socialism not only by making industrial efficiency far more vital but also by making possible social revolution against autocratic and dictatorial governments. The Franco-Prussian War gave us the Paris Commune. World War I resulted in a political revolution in almost every defeated nation. World War II will almost certainly be followed by even more widespread social revolution, particularly in countries occupied by the Russian armies. War weakens the ruling class in defeated countries. It trains the workers to handle weapons and places weapons in their hands. In undemocratic countries, defeat in war temporarily creates a democracy of the bullet if not of the ballot.

And even if European Socialists should fail to capitalize on defeat in World War II, they will have another chance after World War III and another after World War IV and so on.

The conclusion to which this chapter leads is that the growth of Socialism is inevitable in peace and war. In time of peace the natural process of economic evolution automatically changes Capitalism into Socialism because it steadily increases the extent of large-scale social production which in turn makes social ownership and management necessary. In time of war, the demand for a maximum output of munitions,

tanks, and airplanes makes even Capitalists concede the superior efficiency and productivity of many new Socialist innovations. Hence, Socialism spreads both in peace and war.

Chapter III

THE NATURE OF SOCIALISM

Before we begin to consider the advantages of Socialism, we will give a brief description of a Socialist society so that the reader may have a clear idea of the economic system whose merits we are considering. We shall not attempt to justify the individual features of this description as this would require a separate book. There is as much controversy among Socialists concerning the best solution of the economic problems of Socialism as there is among Capitalist economists concerning the best solution of the innumerable problems of Capitalism. Many of these problems are common to both types of economy. Such controversy is healthy and normal and will continue forever in a free country.

The most essential and characteristic feature of a Socialist society is social ownership and use of all natural resources and man-made instruments of production. This means that under Socialism society owns and operates all farms, mines, lumber camps, fishing grounds, factories, warehouses, stores, banks, and office buildings, etc. Probably it should also own all housing facilities, at least all multi-family dwellings. We believe that such social ownership and operation should take the form of ownership and operation by a single central government, although it might take the form of ownership and operation by local governmental units or by coöperatives.

With ownership and operation by a single central government, all economic activities would be divided up among great national trusts and departments, each being given monopolistic control over a single economic function or field of activity. The trusts would produce all goods which should be sold for a price, and would be rather similar to the largest Capitalist trusts, such as United States Steel, Anaconda Copper, and the American Telephone and Telegraph Company. The departments would provide all free or compulsory services such as education, justice, health, insurance, police protection, military and naval defense, highway facilities, etc. These free and/or compulsory social services would be more numerous and more highly developed under Socialism than under Capitalism, and would give maximum equality of opportunity for children and full security against economic misfortunes for all adults.

The heads of all trusts and departments should be appointed by the chief executive or by persons to whom he has delegated this power. The chief executive should be a member of a small democratically-elected one-chamber legislature and the head of the party or coalition of parties temporarily in power in that legislature. Subordinate executives in all trusts and departments should have a relatively permanent tenure similar to that of British and American civil servants. All this is in accord with the basic Socialist principle of political and industrial democracy, since it places the majority of the voters in complete control of both departments and trusts.

We turn next to methods of controlling the output of industry. In the case of the departments, the method used would be virtually the same as that now in use.

In other words, the national legislature, with the advice of the department heads, would make specific annual appropriations for each social service, and would raise the money by taxes. In the case of the trusts, the method used should also be essentially the same as that used under Capitalism, except that many refinements in accounting procedure and monetary control would be desirable. In other words, the trusts should measure profits and losses earned on each item sold, increasing output in response to profits and decreasing output in response to losses. The major refinement needed is that all trusts should be required to increase the output of all items until *no* marginal profit over and above marginal costs is earned. With flexible prices for all factors in production, this would insure full and proper use of all land, labor, and capital at all times. By flexible prices we mean prices which always equalize supply and demand.

To facilitate the maintenance of flexible and uniform prices for land and capital, control over each of these two factors should be given to a single national agency which would rent all land to the highest bidder and raise or lower the interest rate so as to equalize the supply of and effective demand for monetary capital at all times. Both trusts and departments should borrow all funds from this National Bureau of Capital Supply on variable interest loans and should pay the market rate on their entire borrowings at all times. Predictable risks should be insured against and the premiums treated as marginal costs of the use of additional capital, which should never be borrowed unless it promises to yield the market rate of interest over and above these costs. Unpredictable risks obviously can not figure either in interest or in insurance costs.

Workers should be free to work where and when they please, and should have the right to demand work for which they are qualified of any large economic unit hiring considerable numbers of workers in their trade or profession. If too many workers apply for work in any plant, wages should be lowered. This would lower costs and increase sales at the no-profit no-loss price of the finished product, and would also cause some workers to leave the plant to secure higher wages elsewhere. Conversely, if any plant has too few workers, it should raise its wages. This would raise costs and decrease sales, and also attract additional workers. Thus by lowering or raising wages an ideal distribution of the supply of labor can be secured without any compulsion or involuntary unemployment.

In addition to being controlled in such a way as to regulate properly the supply of labor in each plant and occupation, wages would also be determined in such a way as to offer every economic incentive to optimum output on the part of each worker. Piece rates would be used at least as generally as in the best managed Capitalist plants, and they should offer far more, about 100% more, monetary incentive to maximum economic output than they now do, since they should pass on to the worker the full value produced by his additional effort. Capitalist piece rates only give the worker about half of this value, leaving the other half in the hands of the management as a reward for introducing piece rates. In all cases where piece rates are not economical, a Socialist society would use incentive time wages and salaries of various kinds, all designed to make income vary as closely as possible with changes in the amount and value of the services rendered.

We have already indicated that the number and value of free services would be considerably increased under Socialism. All educational costs, including tuition and living expenses of university students, would be met by the state. Justice would be rendered to all free of charge, that is, all legal costs, including lawyers' fees, would be paid by the state. A rather high minimum of health and medical care would also be rendered free of charge by public clinics and hospitals. Society would assume the support of all the unemployable, whether blind, crippled, orphaned or diseased, and would take this unequally distributed burden off the backs of those unfortunate relatives or charitable friends who now bear it. If any involuntary unemployment exists, it should be treated the same way. All workers, and every able-bodied adult would be a worker, should be compelled to save enough in their youth and middle age to insure themselves against poverty in their old age.

There are innumerable other details of a Socialist economy which we might explain here, but the above brief description will suffice for our purposes. Let us proceed now to consider the great advantages of Socialism.

Chapter IV

SOCIALISM WILL END UNEMPLOYMENT

We shall begin our statement of the case for Socialism by explaining why Socialism will end unemployment, not because this is the most significant advantage of Socialism, but because unemployment has been a subject of unusual interest since 1929 and because unemployment is an obviously and inexcusably wasteful result of Capitalism.

It is difficult to determine at all accurately the extent of unemployment under Capitalism because Capitalist governments without exception deliberately and purposefully refuse to measure it. They well realize that, in the absence of any accurate count of unemployed, the great majority of the employed workers will continue to minimize the real importance of unemployment. The tendency to minimize the suffering and misfortunes of others is a virtually universal characteristic of human nature.

Nevertheless, we do possess certain very rough estimates as to the volume of unemployment under Capitalism, at least for recent years. During the unusually prosperous years 1925-1929 the number of unemployed men in the United States probably fluctuated between two and four million. During the depression years 1930-1940 unemployment increased to a peak of over eighteen million in March 1933 and had fallen only to some ten million (including three million employed on relief work by the government) by the end

of 1940. During this eleven-year period the volume of unemployment averaged over ten million, one fifth of the number of persons recorded by the census as gainfully employed in the spring of 1930. These are conservative non-Socialist estimates, and in fact they understate the real volume of unemployment by from ten to thirty per cent because they exclude cripples, housewives and other marginal workers.

In addition to this enormous volume of full-time unemployment there is always a considerable volume of part-time unemployment under Capitalism. Here the estimates are even less accurate, but it would appear that in most years the number of workers on part time exceeds the number of those wholly unemployed. In periods of depression the relationship of part time to full time unemployment varies from year to year and from country to country depending upon the policy of the government, but it is probable that on an average the number of workers on part time is equal to the number wholly unemployed. If we assume that part time workers work half time, a not unreasonable estimate, we may conclude that part time unemployment accounts for one half as much waste of labor power as full time unemployment.

The above estimates of full time unemployment include only those who are actively seeking work, but cannot find any. They ignore a very large number of people who are not working or actively seeking work but who would go to work if they were offered the kind of work they prefer at good wages. If jobs of all kinds at good wages were available and if little effort were required to obtain them, another ten million men and women would go to work. The chief bar to this employment is not unwillingness to work, but lack of

opportunity. Well aware of this lack of opportunity, many women who want work make no effort to secure it and rationalize their failure to secure it by asserting that they do not want it. Many men not faced with the necessity for working reason in the same way.

By bourgeois economists, unemployment is ordinarily divided into three classes, (1) cyclical unemployment, that due to the business cycle, (2) seasonal unemployment, that due to seasonal changes in the volume of production in certain industries, and (3) residual unemployment, unemployment not due to cyclical or seasonal cause.

Cyclical unemployment is due to a variety of causes as to whose relative importance economists differ widely, but there is a rapidly growing and already large group of economists who believe that, regardless of the cause of the business cycle, it can be eliminated under Capitalism by proper centralized control over money and credit. To this group the writer belongs. Even if "managed money" can eliminate business cycles, however, it may not materially reduce the total volume of unemployment. The business cycle stimulates employment during periods of prosperity almost as much as it depresses it during bad times. The elimination of the business cycle under Capitalism might therefore increase unemployment during boom times, or rather during periods which would otherwise have been boom times, as much as it would increase employment during periods which would otherwise have been depression times. Managed money, or any other cure for business cycles, may thus serve primarily to distribute unemployment evenly over every year rather than to eliminate any major portion of it.

Seasonal unemployment under Capitalism is due

largely to the fact that the benefits of seasonal employment accrue to the employer while the costs fall largely upon the workers. Seasonal operation makes it unnecessary for employers to build up large inventories in advance of seasonal sales, and thus reduces their interest and insurance costs and, most important of all under Capitalism, enables them to avoid the heavy risks involved in predicting future sales in a competitive economy. The costs of seasonal unemployment are chiefly lost wages, and these costs are met by the workers. Hence, a policy which is socially undesirable is profitable to the individual capitalist. Socialism would put an end to this conflict of interests, and would eliminate the major risks involved in building up preseason inventories.

Seasonal unemployment under Capitalism is also due in part to the fact that there is little or no coördination between the employment policies of different individual industries, and this, in turn, is due to division of control and responsibility. By establishing central control over all seasonal industries, Socialism would make it possible to so coördinate the work and employment policies of different seasonal industries as to give the same workers relatively steady employment in several different seasonal industries.

Residual unemployment is small and apparently of little significance under contemporary Capitalism because of the amplitude of the business cycle. If periods of abnormal profits and business activity due to speculation and inflation were eliminated, however, residual unemployment would become of far greater significance, for it would then include virtually all of what is now called cyclical unemployment, the only difference being that the latter would be spread evenly over every

year. Hence, it is worth noting the causes of residual unemployment and the manner in which Socialism will eliminate them.

Residual unemployment is due mainly to two causes, the atomistic organization of Capitalist economic activity and the rigidity of wage rates.

By atomistic organization* we mean the fact that economic activity is carried on by millions of independent individuals and corporations. This enormously magnifies the fluctuations which occur in the activity and work force of each unit. It is a well known principle of statistics that variations in the size of component items in large totals are larger than the variations in the totals. If all economic activity in each industry were carried on by a single organization, as would be the case under Socialism, there would certainly be less turnover of labor caused by fluctuations in sales. Moreover, atomistic organization of economic activity is largely responsible for what economists call "friction," a term applied to all those factors which prevent the principles of perfect competition from being a true description of business activity under Capitalism. When an industry is carried on by thousands of different firms, it is impossible for any worker to have full knowledge concerning wages, employment opportunities, conditions of labor, etc., in every firm. Without this knowledge, he cannot immediately secure employment even when it is available, and he cannot make a wise choice among different jobs available. Only under Socialism will the worker

*This atomistic organization is ordinarily called individualism, but this is a poor term because under Capitalism most economic activity is carried by social groups such as corporations, governments, coöperatives, partnerships, etc. In this respect modern Capitalism is much closer to Socialism than to individualism.

have enough knowledge to obtain a new job with the best available wages and conditions in the shortest possible time.

Atomism in industrial organization not only makes it impossible for the individual worker to know where he can find the best job, or any job at all, but it also makes it impossible for employers to know when they can economically hire additional workers, or, as in the case of monopoly, makes it unprofitable to hire additional workers even when it is economically desirable. Small enterprises almost universally lack the accounting facilities and technique which would enable them to know whether the marginal employee is profitable. In the absence of this knowledge, they tend to err on the side of conservatism. Large enterprises almost universally possess some degree of monopoly, and thus have a special incentive to restrict production and employment below the socially optimum level. Under Socialism small enterprises would disappear and large enterprises would be required at all times to increase output not only until monopoly profits have vanished but until all who want to work have work.

The second major cause of residual unemployment under Capitalism noted above is the rigidity of wage rates. Under Capitalism, workers fear that wage cuts will benefit the capitalists rather than the workers, and therefore form unions and pass laws which prevent wages from falling to a level which would permit or persuade employers to give work to all who seek it. Inflation results in a very low level of unemployment partly because it lowers real wages in spite of the unions, the law, and public opinion. It is highly probable that this effect could be secured at any time and to almost any degree by lowering monetary wages. Only under Socialism is this politically feasible, how-

ever, for only under Socialism is it obvious that all wage cuts lower the cost of living for workers by an equal or greater absolute amount and at the same time decrease the volume of unemployment, if there is any. Of course, proper monetary policies would make any general wage cut unnecessary under either Socialism or Capitalism.

Many Socialists are convinced that technological progress is one of the principal causes of residual unemployment under Capitalism, and some of them, witness the Technocrats, believe that this cause alone will lead to the collapse of Capitalism. There is little merit in this latter argument. Technological progress has been occurring at a rapid rate for almost 200 years, and the period of greatest technological progress, the Industrial Revolution, led, not to the collapse, but to the rise of Capitalism.

It is quite possible that technological progress does contribute to residual unemployment, but there is such a sharp difference of opinion on this point among those trained economists who have studied the point most carefully, that it would be unwise to stress this cause. It seems probable that the effect upon employment of a new invention depends upon the nature of the invention, the elasticity of the demand curve for the product concerned, the method by which its introduction is financed, the degree of monopoly in the industry affected, and other such factors. The net effect is probably merely a slight increase in the turnover of labor which, due to the poor facilities for reemployment under Capitalism, causes a slight increase in total residual unemployment. On the whole, however, technological progress seems to increase the demand for

labor about as much and as fast as it increases the supply of labor.

One of the most unfortunate results of chronic unemployment under Capitalism is its effect upon the employment opportunities for the blind, the deaf, the dumb, the crippled, men over 45, and other so-called "unemployable" individuals. When unemployment averages 10% of the working population, there are always plenty of able-bodied young men to fill vacancies, and it is a rare act of philanthropy for an employer to give work to one of these "unemployables" when he can get an able-bodied young worker. Under Socialism, however, all of these "unemployables" will be able to secure work wherever they desire it. If they produce less than the average, they will, of course, be paid less. In some cases, it may be necessary to design special plants and processes for them, but they will all have employment providing their labor is of any value at all. Some addition to the national income on their part, no matter how small, is clearly better than none at all, and a Socialist government will stand ready to grant them a pension sufficient to raise their total income to the proper level.

Unemployment is an inseparable feature of unregulated Capitalism because under such conditions control over economic activity is divided among millions of different farmers, merchants, factory owners, etc. None of these individual proprietors has the power to end unemployment himself, and it is impossible for them to agree among themselves on any cooperative method of preventing unemployment. The first and indispensable step in the elimination of unemployment is the establishment of a central authority with sufficient power to compel every individual busi-

ness unit to employ the proper number of workers. Socialism will create such a central authority.

Unemployment exists under Capitalism because the worker must obtain the consent of some independent proprietor or corporation before he can go to work, and because these latter are never willing to give work to all who ask for it. The obvious cure for unemployment is to require all employers to give work to all who ask for it. This is impossible under Capitalism, for the state does not have this power over employers, and could not enforce the above rule if it did, but in a Socialist society it would be very easy for the government to require all employers of labor to give work to all who asked for it. All production would be carried on by great monopolistic trusts such as the American Telephone and Telegraph Company, and all of these trusts would be owned and operated by the government. Hence, the state would possess ample power to compel them to employ everyone seeking work. More important still, each of these trusts would be able to give work to all who asked for it, as they could always use the additional labor to increase their output. Any financial loss resulting from the increased output and the consequent decline in the price received for each unit of this output would be largely offset by the additional profits of other trusts due to the additional demand for their products upon the part of the new employees of the first trust. This is equally true under Capitalism, of course, but unfortunately under Capitalism it is impossible for one trust to operate at a loss in order to restore employment and create profits for other trusts. Under Socialism this will be possible.

Of course, if the unemployed are to have the right to demand and receive employment from any employer,

some method must be developed to prevent too many of them from demanding work in one industry. The proper method would be for each trust to raise or lower its wages until it had just the right number of workers. There would be no danger whatever of the wages being fixed at an undesirably low level in order to exploit labor, since all wage reductions would be passed on to the workers in the form of lower retail prices. Every wage cut would reduce the cost of living correspondingly. Wages, moreover, could never be too high in one plant or trade because this would cause an inflow of labor which would automatically reduce them to the proper level, and, conversely, they could never be too low without causing workers to leave and thus automatically raising wages to the proper level. The right to demand work not only guarantees the elimination of unemployment, it also guarantees fair and economically justifiable wages in all plants and trades.

Obviously, there will have to be some limitations upon the right to demand work. For instance, it would be undesirable to permit any qualified worker to secure immediate employment as a mail man in a community employing only two or three mail men. However, there is no objection to granting this right in a community or region which employs a hundred mailmen, for a mere one per cent reduction in the wages of those already employed would cover the wage of the new man. The need for such minor qualifications of the right to demand work does not materially reduce its great value as a means of eliminating unemployment, determining wages, and placing workers. In the next chapter we shall further consider these advantages of the right to demand work.

Chapter V

SOCIALISM WILL CREATE A HITHERTO UNKNOWN FREEDOM FOR THE WORKER

Under Capitalism the worker has far more freedom than he possessed under feudalism or slavery. He has the right to leave one employer and seek work with another whenever he pleases. He can move from one place to another in search of work, and can favor those employers who offer the best wages and working conditions. In return for his labor he receives a money income which he is free to spend wherever, whenever, and however he pleases. Finally, in the most advanced Capitalist nations he can participate in the choice of political leaders. Since workers and their families form a large majority of the population in every state, this means that the road to political power lies open before them in these advanced Capitalist states.

These privileges of the working class under democratic Capitalism are very significant and mark a great step forward in the history of human freedom. They should not be ridiculed by Socialists, who themselves merely desire more of the same sort of freedom.

While we ought not to make light of the very significant contributions of Capitalism to human freedom, it is quite proper to consider the limitations upon freedom which still exist under Capitalism and the manner in which Socialism would remove these limi-

tations. We have noted that under Capitalism a worker has the right to leave one employer and seek work with another. Unfortunately, it is hardly ever possible for the worker to obtain work of the kind he wishes in the city, factory, or shift in which he wishes to work. Under Capitalism he has only the freedom to ask for the kind of work he wants. Obviously his freedom will be enormously increased if he is given, not merely the power to ask, but the power to demand what he wants as regards kind of work, place of work, hours of work, conditions of work, etc. This optimum degree of freedom can and should be granted to every worker in a Socialist economy.

Under Capitalism the worker has almost complete freedom in his selection and purchase of commodities and services. He can walk into any store he pleases at any time during the day and purchase any one of thousands of different articles. Most of this freedom in the purchase of goods should be retained under Socialism. It is true that large savings in the cost of distribution could be secured if Socialist distribution were organized on the same basis as Capitalist production. If every worker were required to purchase certain standardized articles in certain stores at certain times of the day, just as he is required to perform certain standardized operations in certain plants at certain hours of the day under Capitalism, the costs of distribution would be far less. Since the distribution of commodities costs as much as their production under Capitalism, economy in distribution is as important as economy in production. It is therefore extremely illogical to sacrifice freedom to economy in the field of production while at the same time sacrificing economy to freedom in the field of distribution. Socialism will

introduce a reasonable compromise between freedom and economy in both fields. It will markedly increase the freedom of the worker as a worker by giving him the right to demand work of the kind he desires, providing, of course, that he is qualified to perform it, in any large plant, department, office, farm, mine, or shift in which such work is carried on. If too many workers ask for a certain kind of work in a certain place, they will be treated in the same way as they would be treated if too many of them tried to purchase the same article in the same store at the same time. In other words, their demand will be reduced to the available supply by suitable changes in the price of the commodity concerned. Capitalist stores rarely infringe upon the liberty of specific individuals by refusing to sell to them alone goods for which they offer the market price. Nevertheless, they find little difficulty in balancing supply and demand. There is no more reason for refusing specific kinds of work to specific workers (except upon grounds of incapacity upon the part of the workers) than there is for refusing to sell specific articles to specific persons. In both cases a free market controlled only by price changes is the economic ideal.

There will undoubtedly be cases in which price changes do not prove a perfect instrument of control. Even under Capitalism large stores frequently run out of certain articles and must ask would-be purchasers to wait for a new supply. When the new supply arrives, old orders are filled in the order of their receipt. The same procedure will at times be necessary in regard to certain kinds of jobs in certain producing units under Socialism. Nevertheless, the basic principle of control by price changes alone could and should govern

the vast majority of cases both in distribution and in production.

Complete freedom in the choice of jobs, which means power to demand any existing job, will constitute a great increase in human freedom, but to be of the most benefit to the worker it must be accompanied by a considerable increase in the variety of existing jobs from which he may choose. It is not enough to permit men to buy whatever they please in retail stores; it is also necessary to provide an optimum variety of wares from which to choose. A narrow selection of wares or jobs will prevent the realization of the maximum gains from freedom of choice in either case.

The existing variety of jobs can be increased in many ways. In the first place, it is possible to increase the variety of jobs available by introducing new, or restoring old, methods of producing the same product. Due to the industrial atomism characteristic of Capitalism, there is probably already an excessive variety in the methods of production in most industries, so that Socialism will find it desirable to restrict rather than to expand this form of variety. However, some opportunities for obsolete handicraft or small-scale methods of production, such as individual farms and the manufacture of clothing by hand, should be preserved in order to please those few men who enjoy these methods of production.

In the second place, it is possible to increase the variety of jobs available by introducing working shifts of different duration so that every worker can choose between an eight hour, a seven hour, a six hour, a five hour, and a four hour day. This form of variety is almost totally absent under Capitalism and must be deliberately introduced by Socialism. We may be sure

in advance that, when granted freedom of choice, workers will not all choose to work eight hours a day, or any other standardized number of hours.

In the third place, it is possible to increase the variety of jobs available for selection by establishing different speeds or intensities of labor for doing the same kind of work. A wide and unintentional variety of this sort among different plants using different methods exists under Capitalism, but it must be replaced by a consciously planned variety of speed in the performance of the same operation in the same plant under Socialism. For instance, whenever a plant has two assembly lines performing the same work, it should deliberately vary the standard speed of the conveyor in these two assembly lines and inform the workers of the difference so that they can choose intelligently between jobs on these two assembly lines. A basic principle of diversification is that the benefit resulting from the introduction of any variety of choice varies directly with the degree of knowledge among the workers concerning its existence. The ignorance of the workers concerning the variety existing under Capitalism helps to make this variety of so little value to them, although absence of really effective freedom of choice is the main factor tending to reduce the value of this variety.

In the fourth place, it is possible to increase the variety of jobs available by varying the conditions of labor under which similar work at similar speeds and with equal hours of labor is carried on. There are so many conditions of labor which may be altered that is would be excessively costly to offer much additional variety of choice in this respect to each individual worker, but a Socialist economy can and should permit each group to determine in a democratic manner, most

if not all, of its own conditions of work. In other words, the walls can be painted any color preferred by the majority, the temperature of the room can be maintained at any level selected by the majority, etc. This will be one of the most significant forms which industrial democracy will take under Socialism.

It is scarcely necessary to add that variety in jobs involves variety in costs in precisely the same way as variety in consumers goods. In both cases those who choose the more expensive varieties should individually pay the full cost involved in their choice. Just as men who purchase silver watches pay more than those who purchase nickel ones, so those who work on a slow assembly line or use handicraft methods of production should pay all resulting differences in the costs of production. Freedom of choice in the selection of goods or jobs does not mean freedom to escape the payment of costs for which one is responsible.

In summary, we have based our argument that Socialism will give the worker a very striking increase in freedom upon the fact that it will give workers the same freedom in the choice of jobs which they now possess in the choice of articles in a retail store. Providing they can pay the price (a certain minimum output), they will be free to purchase any job they desire. There is, however, another important form which this increase in liberty will take. We refer to industrial democracy, one result of which we have already noted. To the nature and advantages of industrial democracy we shall devote the following chapter.

Chapter VI

SOCIALISM WILL REPLACE ECONOMIC OLIGARCHY WITH ECONOMIC DEMOCRACY

The rapid rise of political democracy has been one of the most significant historical developments of the century and a half since the great French Revolution. The recent rise of Fascism and dictatorships in Europe is merely a temporary reaction, similar to the Bourbon restoration in 1815, against the dominant trend towards political democray. While not a necessary prelude to Socialism, as demonstrated by the Russian Revolution, political democracy has greatly benefited the cause of Socialism in those countries where it exists. In the first place, political democracy has opened a broad and unobstructed avenue to political power for the Socialist party. In a democratic country all that is necessary to achieve a Socialist society is to persuade a majority of the people to vote Socialist. In the second place, the enlightened agitators and propagandists who taught the masses to support and demand political democracy, at the same time taught them unconsciously to question the merits of economic oligarchy. The campaign for political democracy was based largely upon the argument that "all men are created free and equal." This argument, however, as well as most of the other conventional arguments in favor of political democracy, has equal force when

used to support industrial democracy.* All the Socialists need to do in order to destroy economic oligarchy is to stress its existence and to point out to the masses that it conflicts with their already accepted beliefs concerning the advantages of democracy.

Since the basic arguments in favor of political democracy are identical with those in favor of industrial democray, a brief review of these traditional arguments, or rather of the sound arguments among them, is in order, even though they are already accepted by the masses.

In the first place then, democracy is desirable in both politics and economics because, in the absence of it, rulers are certain to act in their own interests whenever these interests conflict with those of the group as they do at innumerable points. When the feudal landowning classes controlled the British government, they favored agriculture at the expense of the nation, just as today the Capitalists who control our industries favor their own interests at the expense of the nation. Neither government nor industry can be run in the interests of the majority of the people unless they are completely subject to the will of this majority.

In the second place, democracy is desirable in both government and industry because it provides a peaceful and relatively efficient method of selecting leaders. The only method of replacing a dictator is by bloodshed or inheritance and both are equally undesirable in government and industry. As to relative efficiency, we may note that the democratically elected premiers

*Modern conservatives are fond of pointing out that all men are not born equal. However, this fact cannot be used to justify private ownership of capital or the inheritance of economic power. The working class includes more men of ability than any feudal or economic oligarchy.

of Great Britain have been far more able men than the hereditary monarchs under whom they have served. Similarly the presidents of the United States have averaged far higher in ability than the members of any equally numerous family of industrial barons like the Vanderbilts, the Astors, the Goulds, the Rothschilds, the Du Ponts, etc.

It is true that in the economic sphere we also have competition in addition to inheritance as a major force affecting the selection of leaders, and in so far as leaders are chosen as the result of fair competition they may be the equal of those elected by the people. Unfortunately, however, we cannot permit competition to select certain able leaders under Capitalism without also permitting these able individuals to pass on their leadership by inheritance to far less able men. The ability of the founder of a dynasty does not ensure ability in his descendants, either in government or in industry. The Hohenzollern, Hapsburg, Bourbon, and Stuart dynasties may have been founded by able men brought to the top by fierce competition, and their descendants were subject to the competition of such upstarts as Napoleon and Cromwell, but these descendants nevertheless retained great power over long periods of time in spite of a great decline in their ability. So it is with the houses of Vanderbilt, Astor, Morgan, and Rockefeller in the economic field. Competition is a corrective, but there ought to be no need for correction. A Socialist state will be able to develop competition to an even higher level as a means for the selection of leaders, since it will greatly increase equality of opportunity. At the same time, it will not permit the able leaders selected in this manner to found powerful economic dynasties.

In the third place, democracy is superior to oligarchy because it permits a more accurate determination of the needs of society. Even if dictators or oligarchs desired to give sole attention to the interests of the masses, they could not determine them without establishing and using the machinery of democracy, popular elections and expressions of opinion. Thus Hitler could not learn whether the German people desired that more or less money be spent on public education, and Edsel Ford could not learn whether his workers preferred a six or seven hour day without holding a fair election, and neither of them cared to do so. Democracy in either field would compel them to do so.

In the fourth place, democracy in government and industry educates the citizen and the worker. Democracy teaches him to take an intelligent interest in the fundamental social problems of the day, thus both raising his cultural level and hastening the solution of the problems. Wide public interest in social problems increases the funds and the number of scientists devoted to their study, as well as increasing popular discussion of them. The rise in the cultural level of citizens and workers resulting from democracy makes life more interesting and more significant for them. The citizens of a democratic nation like Great Britain get far more education and satisfaction out of national political activities than do the subjects of a despotic government like that of Fascist Germany or Czarist Russia. In the same way, the workers in a Socialist factory will derive far more enlightenment and pleasure from their economic activity than do the workers in a Capitalist factory because they will have the power and the duty of solving in a democratic manner the major economic questions which face them.

Having briefly restated the traditional and accepted arguments for democracy in government and pointed out that these arguments apply with equal force to democracy in industry, we now proceed to a description of the actual method of economic government found under Capitalism. In a Capitalist society the workers do not control their hours of labor, their conditions of labor, the rate of national saving, the rate of exploitation of natural resources, the expenditures upon research, the supply of purchasing power in circulation, the volume of employment, or many other economic factors of the uttmost importance to them. If employers refuse to permit rest periods every hour or two, the workers can only protest by organizing unions and strikes. If the Capitalist class acts in such a way as to reduce the natitonal volume of saving or capital creation, the workers can only look on in silence or voice ineffective protests. If the bankers choose to alter their volume of loans, thus changing the amount of purchasing power in circulation and altering all prices and wages, the workers again can do nothing to further or prevent it. Of course, even Capitalist governments are increasingly intervening in order to compel individual Capitalists to follow certain policies with regard to hours and conditions of labor, conservation of national resources, and the issue of bank credit, but occasional or even frequent intervention in the affairs of private capitalists is very far from being industrial democracy, particularly in states where all of the organs of education and propaganda—the press, the radio, the cinema, the church, and the schools—are controlled by the Capitalist class. Moreover, the "interventionist chaos" in which the world finds itself today is probaly worse than pure Capitalism, since it

destroys the freedom and initiative of the Capitalist entrepeneur without establishing effective and efficient social control. This can only come with complete nationalization of both ownership and control of industry.

Perhaps the most galling feature of the existing economic oligarchy to the average worker is the fact that he is at all times subject to instant dismissal by his employer upon the slightest provocation or upon no provocation at all. By eliminating unemployment, Socialism would make this evil far less serious than it now is, but Socialism would go much farther than this. It would abolish the right of arbitrary hiring and firing, and require that every worker charged with inefficiency or insubordination be given a hearing before impartial judges before being dishonorably discharged. Soldiers and sailors possess this right which is denied to workers in private industry.

It is of interest to note that the composition of the oligarchy which controls economic activity under Capitalism has undergone a radical change in the last fifty years. In former times, economic activity was dominated by a class of active Capitalists who managed directly their own enterprises. Today, however, economic activity is dominated by the bankers who supply the capital for our great corporations and by self-perpetuating, non-owning management groups. In a large and growing number of cases, the latter groups are in complete control, since they have accumulated sufficient reserves out of past profits or security sales to render them independent of the bankers, even during a depression like that of 1929-40. As but one of many instances, we may cite the case of the American Telephone and Telegraph Company, the largest pri-

vate corporation in the world. This corporation has several hundred thousand stockholders, none of whom owns over 1% of the common stock. The vast majority of these stockholders never attend annual meetings and never have a chance to sign more than one proxy, that sent them by the management at the expense of the corporation. Obviously, they exercise scarcely any control over the company, whose board of directors is a creature of the management. If any opposition to the management should arise, the management would be able to spend millions of dollars of company funds to present its side of the argument to the stockholders while the opposition would have to use its own funds. The cost of sending one letter to every A. T. & T. stockholders is more than $70,000. Few stockholders care to spend such sums for social purposes. Thus, under contemporary Capitalism economic power has passed into the hands of an irresponsible self-perpetuating and non-owning managerial oligarchy. This oligarchy is irresponsible because it is responsible neither to the owners nor the workers. It has lost the self-interest of the owning Capitalist, like Henry Ford, and has not acquired anything but a philanthropic interest in its workers. Socialism alone can make these irresponsible managers responsible to the workers and therefore necessarily interested in their welfare in a direct and non-charitable manner. However, as Marx noted long ago, the success of hired managers as business executives proves that the profit motive is not necessary to efficient management. Incentive salaries secure this result even more effectively, and they can be used under Socialism as easily as under Capitalism. Indeed, they should be much more effective, for it is difficult to conceive of an independent and self-per-

petuating management setting an effective incentive salary system to persuade itself to work harder. Sound incentives require supervisors and impartial evaluation of results by superior authoriteis.

Chapter VII

SOCIALISM WILL PROMOTE EQUALITY OF OPPORTUNITY

In a Socialist America there will be far more equality of opportunity for all workers than is possible under Capitalism. Economic life will continue to be a competitive race, but all young men and women will be required to start from approximately the same starting point. This will greatly increase the amount of real competition and will result in a more efficient selection of winners. Since the winners of this race become powerful executives and leaders of various kinds and exercise control over all economic activity, it is of very great importance that they be selected on the basis of real and fair competition. No competition can be fair or efficient as long as some men are born to great opportunities and vast power while others of equal ability lack even an elementary education.

Socialism will promote equality of opportunity, in the first place, by virtually eliminating all inheritance of wealth and power. In a Socialist America Henry Ford would not be succeeded by Edsel Ford as president of the automobile trust. J. P. Morgan, Sr., would not be succeeded by J. P. Morgan Jr., as the head of a large banking house, the sons of William Randolph Hearst would not be assured the editorship or control of powerful newspapers, and so forth *ad infinitum*. Virtually all capital would be socially owned and even that which is privately owned would not be inherited.

A rich father might leave his son his old clothes, his books, his papers, his watch, and other similar personal property, but he would not be able to leave his son the title to a store, a factory, a mine, or a railroad, because he would not have it to leave. It is true that he might have savings deposits in the state bank, but there is every reason to believe that a firmly established Socialist state would appropriate all savings deposits, at least all over a very small limit, upon the death of the depositor.

Few people realize the extent of the evil of inheritance under Capitalism. Americans in particular are very fond of the illusion that most private wealth is earned and saved rather than inherited by those who possess it. That this is an illusion can be very easily made clear by a few simple calculations. In 1926 the value of all private wealth in the U. S. was somewhere between 300 and 400 billions of dollars, and the annual volume of private savings was about 10 billions. Since private wealth is largely owned by elderly people, and since it changes hands on the average at least once, and in certain cases several times, every generation of 25 years, we may divide the total private wealth by 25 to secure a rough estimate of the amount of wealth received by gift or inheritance in 1926. On this basis we get an estimate of 12 to 16 billions of dollars for inheritance as compared with 10 billions for earned and saved additions to private wealth. But even this comparison grossly exaggerates the role of earned savings as a source of private wealth, for most of these savings are made out of large inherited incomes. In other words, most saving under Capitalism is merely the natural growth of inherited capital made possible by the large and relatively su-

perflous incomes created by inheritance. Thus, we may conclude that saving has been the direct source of less than half of the private titles to wealth in the U. S. and that less than half of the total saving is saving out of earned income. In other words, less than one fifth of the wealth owned by private individuals has been accumulated by them out of incomes earned by them personally. In European nations inherited wealth and income are even more significant as sources of private wealth.

Before we leave the subject of inheritance, it may be well to stress the point that Socialism offers the only practical and sound method of eliminating the evils of inheritance. Popular resentment against large inheritances is already so strong that the leading Capitalist states have imposed high taxes upon them, rising to about 75% in certain cases. Under Capitalism, however, such laws are in the long run harmful to the interests of the workers, since they reduce the large inherited incomes which are the source of most saving and since they result in the dissipation of existing capital. Under any economic system the wages of labor tends to vary directly with the volume of capital, and anything which dissipates capital or checks saving serves to reduce real wages. Thus Capitalism cannot be reformed by inheritance taxes without injuring the welfare of the workers under Capitalism. Socialism alone can reduce the evils of inheritance without at the same time reducing the volume of saving and the level of real wages. Socialism, moreover, can go much further; it can abolish inheritance.

Socialism will increase equality of opportunity by minimizing the importance of personal "pull" due to family connections. Complaints concerning the neces-

sity of "pull" in order to secure promotion in Capitalist enterprises are legion, and many of them are undoubtedly merely excuses offered by those who do not merit promotion, but in a system where private ownership of industry exists there must inevitably be a large amount of nepotism and favoritism. Many successful executives who are fond of asserting that they "started at the bottom" neglect to explain that their grandfather, father, or uncle was president or senior executive of the company at the time. Under Capitalism it is neither logical nor feasible to prohibit successful business men from employing and rapidly promoting their own sons, grandsons, and nephews. In a Socialist economy it will be both logical and feasible to prohibit any executive from employing his own relatives.

Socialism will considerably increase equality of opportunity by making all secondary and higher education completely free. In other words, no boy or girl in a Socialist America will be discouraged from becoming a doctor, a lawyer, an artist, a scientist, a technician of any sort, a teacher, or a college professor by the cost of securing the necessary education and preliminary experience. This means that the community will not only abolish all charges for tuition, fees, and books at high schools, colleges and universities, but will also pay the entire living expensese of all college and university students. The sole means used to restrict entrance to these higher institutions of learning will be the establishment of certain requirements as to health, personality, intelligence and past grades. Personal merit will replace parental wealth as the chief criterion for selecting college students.

Although we now have over one million college students in the United States, there are more promising

students who fail to go to college, chiefly for financial reasons, than there are who go to college. This fact has been demonstrated beyond a reasonable doubt by several careful scientific investigations.

In the Southern states the majority of negro children still leave school after completing the first, second, or third grade, and the children of white share croppers fare little better. In1940 the number of children enrolled in the first grade in Georgia was 80% higher than the number enrolled in the second grade, chiefly because many children never reach the second grade.

The effect of real equality of educational opportunity upon the quality of our professional classes will be very marked. As long as M.D.s and Ph.D.s are selected almost entirely from the children of that 5% of the population which has the highest income, the average native intelligence and ability of these men will be considerably below the level attainable if all young men and women had an equal chance to secure M.D.s and Ph.D.s The graduate schools of Harvard, Yale, Columbia, and Chicago Universities are the finest in America, if not in the world, and have perhaps 20,000 students, but it is probable that less than 5% of these students came from the great working and farming classes that made up the poorest 95% of the population from 1920 to 1940 (i.e. persons with incomes of less than $3,000).* Without questioning the fact that the children of the well-to-do have a higher average native intelligence and ability than the children of the poor, we may reasonably predict that real equal-

*In 1929 only about 2,200,000 persons reported an income of over $3,000 in their Federal Income Tax returns. There were about 48,000,000 persons "gainfully employed" according to the Census of 1930.

ity of educational opportunities would raise the average intelligence of all professional classes to the level now existing among the upper 25% of these professional groups. Obviously this would do a great deal to improve the quality of medical and scientific services and research. The same type of benefit would occur in every branch of economic activity. The quality of engineers, accountants, statisticians, and professionally trained business men of all classes would be improved in the same way, although not to the same extent since there now exist fewer pecuniary obstacles to training in these fields. The quality of leadership particularly would be raised to a new and markedly higher level in every field.

Socialism will increase equality of opportunity by providing proper physical, dental, and medical care for all children and young people free of charge. The children of the working class will no longer be materially handicapped in their competition with the children of the well-to-do by the lack of suitable opportunities for physical exercise and wholesome play and by the lack of proper dental and medical care in childhood and youth. Free health is as essential as free education for the creation of real equality of opportunity. It may be argued with some logic that an adult worker who earns enough to be able to afford proper medical care for himself, as all workers will under Socialism, and who yet refuses to purchase this care deserves any misfortune which is due to this neglect, but it cannot be argued with any show of logic whatsoever that the children of this worker should be handicapped throughout life in order to punish the parent.

Before leaving the topic of equality of opportunity

under Socialism we should note the effect of the right to demand work, discussed in a previous chapter, upon equality of opportunity. If every worker is free at all times to obtain employment in an industry, equality of opportunity will be greatly favored. No one will be stuck in a stagnant or dying industry, or barred from a new or high-wage industry, and all will be free to find the work for which they are best qualified by nature and training.

Chapter VIII

SOCIALISM WILL PROVIDE ECONOMIC SECURITY FOR ALL

One of the most universal evils of life under Capitalism is the haunting sense of insecurity in work and income felt by all workers and their dependents who give a thought to the morrow. This feeling of insecurity does much to reduce the happiness of the worker even when employed and working at average wages. A Socialist society will considerably increase the satisfaction of the worker merely by removing the grounds for this feeling of insecurity, apart from its effect upon the magnitude of his income, or other conditions under which it is earned and spent.

The causes of this feeling of insecurity are the ever-present and obvious possibilities of want due to sickness, accidents, unemployment, old age and other such things which reduce or eliminate income without reducing the need for it. In a Socialist society these causes will not be permitted to produce want, and the worker will know at all times that he and his family will be well cared for no matter what happens. Some causes of insecurity, such as unemployment, will be eliminated altogether. Other causes, such as sickness and old age, will not be permitted to cause want, regardless of the lack of foresight of certain individuals.

Capitalist economists have fostered a number of very serious errors in regard to want and insecurity. In the first place, they have taught that the individual

should be free to choose between security and insecurity, that he should be free to save for the future or purchase various types of insurance or not, just as he pleases, and that whether he does so or not is a personal and not a social problem. Actually, of course, lack of foresight upon the part of any private individual is far more a social than a private evil, at least in a humanitarian society, for the worker who fails to save and insure against the future does not starve to death; he merely compels society to support him in his time of need. Hence, society has a right to, and a sound reason for, interfering sufficiently with the conduct of the individual worker to compel him to save enough and/or carry enough insurance to eliminate all need for social aid in what would otherwise be times of need. No individual worker should be allowed to make choices which may place the burden of his support upon other workers. This implies, of course, that the state must provide and require compulsory insurance against all risks which might make the individual dependent upon the group.

Another fallacy popular among bourgeois economists is the theory that workers should be punished by want whenever they get sick or have accidents or lose their jobs in order to persuade them to take better care of their health, make greater efforts to prevent accidents, and work harder while employed. These theorists fail to see that, while the threat of want may temporarily increase efficiency and output, it involves a psychic cost, the haunting feeling of insecurity, which far more than offsets the gain in physical output of goods. In the long run this psychic cost must reduce the total output. Moreover, equal or greater immediate gains in output can be secured from a sound system

of rewards for good behavior at no psychic cost in the form of a feeling of insecurity. The doctrine that rewards are more effective than punishments in teaching new behavior is well established in educational psychology. It ought to be generally applied in industry.

Returning to the subject of the causes of insecurity under Capitalism and their elimination by Socialism, we may note first that Socialism would greatly increase the feeling of economic security among all classes of the population by entirely eliminating involuntary unemployment, the most significant cause of the feeling of insecurity under Capitalism. We have already explained in Chapter IV the precise means by which this end will be accomplished, and need not discuss it further here.

Next to the fear of unemployment the fear of loss of wages due to accident or sickness is probably the most significant element in the feeling of insecurity among workers under Capitalism. Socialism will not be able to eliminate all sickness or accidents, but it can reduce materially the extent of both by placing a higher monetary penalty upon those plants, products, methods, and managers who are responsible for them and by providing ample and free medical services to all.

It is true that compensation laws which place monetary penalties upon industries and capitalists responsible for occupational disease and accidents have been enacted under Capitalism, but these laws are very inadequate, the penalty for complete and permanent crippling of the worker being only a few thousand dollars, and tens of millions of workers are completely unprotected by even such inadequate laws. One very obvious indication of the gross inadequacy of compensation payments under Capitalism is the great differ-

ence between the amount of these payments and the amount of payments to war veterans who received injuries of equal severity while in the army or navy. In a Socialist America wounded veterans of industry will be cared for at least as well as wounded war veterans are now cared for. This will no more tend to increase the number of industrial accidents than it now tends to increase the casualties of war. Rather, the collection of these payments from the plants and managers responsible for them will inevitably cause a considerable reduction in the number of industrial accidents. This has already been the result of the inadequate compensation laws enacted under Capitalism, and it makes ample compensation to wounded industrial veterans even more desirable than ample compensation to wounded war veterans, for the latter does not reduce the number of casualties.

While ample compensation for wounded industrial veterans is necessary to eliminate the worker's feeling of insecurity, it must not be forgotten that industrial accidents make up only a small proportion of the total number of accidents, and that occupational diseases constitute only a small portion of total sickness. Socialism will eliminate accidents and sickness as causes of economic insecurity because it will compel all workers to carry full insurance for every member of their families against all accidents and all sickness, non-industrial as well as industrial. This argument might sound more persuasive if we neglected the compulsory insurance and stressed the universal payment of compensation, but this would only tend to obscure the fact that even under Socialism no accident or sickness compensation can be paid unless the funds are collected from someone.

Compulsory and universal insurance against all types of sickness and accidents will provide the funds for a national system of free medical care for all citizens as well as for ample monetary compensation for those temporarily or permanently incapacitated by ill health or accidents. The free provision of medical services will increase their consumption and improve the general health of the population. Many workers who now postpone their visits to the doctor or dentist until too late, for financial reasons, will visit them in time to make a complete cure possible. This also will tend to reduce the feeling of insecurity upon the part of the worker.

A third important cause of the feeling of insecurity under Capitalism is the possibility of poverty and dependency in old age. It has been estimated by able students of the question that over 70% of all men and women over 65 are dependent for their support upon others. Socialism cannot eliminate old age, but it can offer suitable and remunerative employment to many aged people now unable to secure work. As long as millions of men are unemployed, it is inevitable that the burden of unemployment should fall most heavily upon the least productive, but by no means unproductive, workers among whom the able-bodied aged tend to fall. Socialism will do much to eliminate the evil of dependency in old age merely by eliminating unemployment.

Aged people who are incapable of work could be provided for in several ways. Of these probably the best would be to pay interest to the aged upon the savings they have been compelled to make in previous years. Capitalist nations save and invest up to 15% of their total income in good years. Under Socialism

the rate of saving will be higher, and it will very likely take the form chiefly of universal, compulsory, and uniform saving by all workers. In other words, society will subtract from each individual's income 10-20% of his total income and use this money to build new factories, mines, schools, roads, etc. By the time a worker is 60, he will have saved perhaps 15% of his income for 40 years. With compound interest at the market rate added, this would produce a capital on whose income he could very easily support himself in comfort and in the satisfying conviction that he was living upon the fruits of his own savings. If necessary, the aged worker could be permitted to spend some of the principal, although this would have the undesirable social consequence of reducing the net annual national savings.

In the last few pages we have explained how Socialsim will eliminate the three great causes of economic worry and insecurity, namely, the threat of poverty due to unemployment, the threat of poverty due to accidents or ill health, and the threat of dependency in old age. Social insurance would not only eliminate economic insecurity itself but would also result in a much fairer and more equal sharing of the costs of unemployment (if any), accidents, ill health, and old age. The principle that insurance reduces the total disutility of any loss by spreading it over a period of years and over a large group of co-insurance is well known to all students of insurance. It is just as valid in the case of a loss due to the ill health of a breadwinner as in the case of a loss due to a fire in a home or factory. Under Capitalism individuals who suffer such misfortunes as the birth of an idiot child or the prolonged dependency of aged parents are compelled

to bear the entire economic burden of these misfortunes until they and all of their immediate relatives have been forced into dependency or poverty. In a Socialist society every individual would be required to carry insurance against all economic risks of this sort, so that, when any such misfortune befell a single individual or family, it would not permanently or even temporarily blight the economic welfare of that individual or family. Of course, the requirement of compulsory saving would greatly reduce the number of such risks, but it could not entirely eliminate the need for insurance. It would still be possible to have an idiot child or suffer a severe and permanent injury before one's savings had accumulated to a sum sufficient to support the individual on the interest from it.

The elimination of all threats to the economic security of the individual would do a great deal to improve the mental and physical health of the population as a whole and to increase the stability of family relationships. Institutions for mental cases now have more beds and inmates than all other hospitals, and the demand for institutional care of such cases is rapidly increasing. The economic insecurity characteristic of Capitalism is one of the major environmental causes of mental breakdowns and insanity. Moreover, the effect of worry upon digestion and health in the general population is well known to be very harmful. Finally, economic insecurity is one of the major causes of divorce and desertion. Many men and women are deterred from happy marriage in the first place by their economic insecurity and many husbands and wives separate because of economic insecurity. In a Socialist society economic insecurity will no longer cause mental

breakdowns, undermine the health of the masses, or prevent happy and permanent marriages.

One of the basic fallacies of bourgeois insurance theory deserves attention here. Under Capitalism men who apply for life insurance are required to undergo a medical examination. If they receive a poor rating in this examination, they may be refused insurance. Some companies have two or more classes with varying rates for those who are granted policies. Such a classification of risks with varying rates is justifiable in the case of fire insurance because it tends to persuade builders to erect more fireproof buildings, but it does not serve such a purpose in the case of men seeking life insurance. They can do little to change their health ratings and, even if they change them radically, they can secure no change in the premium rate.

Variations in premium rates and refusals to grant insurance serve chiefly to increase the burdens and risks of those who as a result of poor heredity and childhood environment receive a low rating on medical examinations. They further increase the handicaps of those already unfairly handicapped by nature. This would be excusable if it altered for the good the behavior of such people, but since it does not have this effect in any appreciable degree, it is inexcusable, although inevitable under a system where life insurance is sold by private companies eager to decrease their risks and increase their profits. Indeed, it is precisely those persons now refused life insurance by private companies who most need it. In a Socialist society they would be given full protection against the unusually high risks forced upon them and their dependents by circumstances beyond their control.

Chapter IX

SOCIALISM WILL REDUCE INEQUALITY OF INCOME

The introduction of Socialism will reduce inequality of income to the economic minimum. A system of wages and salaries which gives to almost every worker or executive the full product of every additional effort on his part is necessary in order to provide proper individual incentives to optimum economic output, but such a system of incentive wages and salaries does not make necessary the enormous inequality of income characteristic of Capitalism. While introducing such a system of incentives for the first time,* Socialism will markedly reduce inequality of incomes for a variety of reasons.

In the first place, a Socialist state will increase the degree of equality of income by abolishing private ownership of land and distributing rent in such a way that it will not cause inequality of income. Since land rent constitutes about one eighth of the entire income of the United States, and is still more important in more densely populated countries, the subtraction of it from the income of the relatively well-to-do members of society and its distribution among all workers as a uniform proportional addition to wages and salaries

*Under Capitalism the best existing incentive wages, piece rates, give the worker only about half of the value of any additional output produced by him. Thus they offer nowhere near a proper incentive to optimum output.

will result in a considerable increase in equality of income.

In this connection, we must emphasize the fact that while the unequal distribution of land rent among private landowners can easily be altered or eliminated, land rent itself is a natural phenomenon like gravitation which cannot be eliminated in any economy. Land rent is the saving in costs of production made possible by the use of more desirable land, and such savings will occur in any economic system which uses more than one grade of land for the same purpose, in other words, in every conceivable economic system. It is possible to ignore this saving by averaging the costs for the entire output of a given good, in which case the production of this good is apt to be unduly expanded, and it is possible to call it by a different name, for instance it may be called wages and added to the pay of those who are fortunate enough to work on the best land, but it is impossible to destroy or eliminate it. Hence, a Socialist society should recognize its existence, measure it accurately, and provide for its distribution in a reasonable manner.

Since land rent is a pure surplus due entirely to the niggardliness of nature, i.e. to the scarcity of land of the best grade, and is unrelated to the relative efforts and ability of individual workers, there can be no excuse for its distribution in such a manner as to increase inequality of income. If land rent were due to the efforts of labor and varied with the effort of the laborer in the same way as physical output or wages, there might be a sound reason for the unequal distribution of it, i.e., in order to increase its amount, but, since this amount cannot be increased in this way, there is no reason for such an unequal distribution of rent.

On the other hand, it would be unwise to divide up land rent equally among all citizens, since this might permit some citizens to live without working and would certainly reduce the value of piece rates and other incentive wages as incentives to optimum production.

In the second place, Socialism will increase equality of income by limiting the salaries of high business executives, movie stars, famous baseball players, successful novelists, popular singers, etc., to a relatively small maximum such as $10,000 a year. A man like Caruso would sing as much and as well for $10,000 a year as for $1,000,000 a year. The president of the American Tobacco Company would work as hard for $10,000 a year as for $1,000,000 a year. The pecuniary factor which makes such men work harder is an incentive salary, i.e. one that varies with their efforts, not the absolute size of their income, and it is as easy to vary a small salary according to individual effort as it is to vary a large salary in this way. Moreover, in all high positions the chief reward is the position itself and the power and prestige connected with it. Any minor movie actor would be delighted to accept a reduction of salary in order to be starred in the best picture of the year. Any minor business executive would be willing to accept a lower salary in return for the opportunity to act as the chief executive of a great corporation like General Motors or United States Steel.

The enormous salaries of people like Greta Garbo and Myron Taylor of United States Steel are very similar to land rent. In large part they are a surplus or saving due to the superior natural productivity of such people in comparison with ordinary people. This surplus we shall call personal rent. It is essentially a

pure surplus unaffected by the actual salary received, since those who yield personal rent would work as well for $10,000 a year as for $1,000,000. The ability to earn a large personal rent is largely due to the inheritance of rare mental and physical abilities and to the training given by parents and society. Since the individual himself is responsible neither for his fortunate heredity nor for the education given him in his youth, he deserves no special monetary reward for these factors, particularly since he is bound to receive very great non-monetary rewards in any case.

In the third place, Socialism will reduce prevailing inequality of income by increasing equality of opportunity. We have already devoted a separate chapter to an explanation of the manner in which Socialism will promote equality of opportunity, so that all we need explain at this point is the manner in which an increase in equality of opportunity affects wage and salary differences.

Other factors being equal, high wages and salaries are due entirely to the relative scarcity of the services and ability of those who receive them. Doctors receive higher salaries than untrained clerks because they are much scarcer in proportion to demand. Now Socialism cannot increase the proportion of the population with superior native ability, except by a slow process of eugenic reform, but it can greatly increase the number of doctors by providing a free medical education, and a reasonable salary during years of training, to all young men and women who desire to become doctors and who possess the necessary native ability. As we have already pointed out, only the children of well-to-do people, composing less than one twentieth of the total population, can afford to study medicine under

Capitalism. This limits the supply of doctors at least to one tenth, and perhaps to one fifteenth or less, of what it would be if all young people of similar ability and inclinations were trained as doctors, and the resulting scarcity of doctors raises the market value of their services much above what it would otherwise be. The same situation exists in all other professions and occupations requiring a technical training. Socialism will lower the relative income status of all of these groups by considerably increasing the number of workers in each of them.

Moreover, real equality of opportunity will permit all young people to learn some trade or profession, to become skilled in some form of work. This will virtually eliminate the important groups of unskilled workers who receive the lowest wages of all under Capitalism. It will not entirely, or perhaps even largely, eliminate the work now performed by unskilled workers, but it will change the workers who perform this work into skilled workers operating labor-saving machines, and thus considerably increase their productivity. By increasing the supply of capital and raising the wages of labor, Socialism will bring about the substitution of machines for unskilled labor in many cases. Moreover, as Frederic W. Taylor, the founder of Scientific Management, so beautifully demonstrated, there is a science in every operation, no matter how routine, and the worker who is properly trained to perform the most routine of operations is far more productive than an untrained worker.

Up to the present point the discussion of the effect of Socialism upon inequality of income has been restricted to rent and wages. We have yet to discuss profits and interest. Profits require little attention,

since it is obvious that Socialism will entirely abolish private profits as a cause of unequal income. Profits will continue to be earned by certain trusts, but there should be no appreciable net profit from industry as a whole. If there is any, it should be so distributed among the workers as to cause no increase in the relative inequality of income. This brief discussion of profits, however, ought not to obscure the fact that the elimination of profits will constitute a very significant step towards greater equality of income.

Finally Socialism will increase equality of income by reducing greatly the existing gross inequality in the distribution of interest. This result will be achieved in two ways.

In the first place, a Socialist state will equalize private interest income by compelling every worker to save a certain uniform percentage, probably between 10 and 20%, of his wage or salary income. This amount will be deducted from the money actually placed at his immediate disposal, and will be credited to a personal savings account upon which he cannot draw except in emergencies or in old age. These compulsory savings will provide the bulk of the new capital invested in industry and housing each year, and the interest paid will measure the yield of this additional capital. For our present purpose, however, the main point is that these interest payments will be made universally to all workers, and in proportion to past wages, so that they will not tend to cause inequality of income as they do under Capitalism.

In the second place, a Socialist state will equalize private interest income by abolishing inheritance of capital and interest income, and by dividing up the interest earned on capital accumulated by persons now

dead in such a way that it will not increase inequality of income. Capital does not cease to be productive and earn an interest income merely because the person who saved it has died. The interest continues but the right of any individual to it vanishes. Hence, a Socialist society will appropriate this unearned interest income and divide it up relatively equally among the entire working population in the same manner as rent. It should be noted that the major part of the capital in existence at any one time has been saved by persons now dead, so that the redistribution of the interest upon this portion of capital will be a very significant step towards greater equality of income.

Chapter X

SOCIALISM WILL CREATE A FREE AND DEMOCRATIC PRESS, PULPIT, RADIO AND CINEMA

Under Capitalism nearly all of the important means of determining and influencing public opinion and personal ideals are owned or dominated by a small class of wealthy men whose interests are directly opposed to the interests of the nation as a whole. Socialism will transfer control over these character and mind-forming agencies to the people. It will substitute democratic control of public opinion for oligarchic control by the capitalist class.

One agency for the formation of public opinion, the school system, is already in the hands of the people. Today we would not tolerate private ownership of a city school system either by conservative capitalists like William Randolph Hearst, or by mildly progressive capitalists like Adolph Ochs. Why then do we continue to permit such men to own great city newspapers which have more influence over political opinions than our public schools? The average American citizen has attended school for about 10 years only, but after leaving school he reads newspapers for the rest of his life. Obviously democratic ownership and control of the latter is more important than democratic control of the former. Private ownership of the press means private ownership and manipulation of public opinion for private ends and profits.

There are problems to be solved in the development of a free and democratic socialized press. It would certainly be extremly undesirable to permit the political party temporarily in power to control the editorial and news policy of the nation's press. Without undertaking an elaborate discussion of this problem, we shall merely express our confidence that it can be solved in several ways and suggest one solution, namely, coöperative ownership and control of each newspaper by a group of subscribers with similar political views, with complete freedom in the establishment of new papers to represent new or different points of view. While there would be scarcely any advertising in a Socialist society, the government department of education would probably purchase considerable space in all papers for use in its program of adult education. To eliminate political favoritism, the department of education should be required to purchase the same amount of space in all papers and to pay for it on a straight circulation basis.

It is sometimes asserted that we already have a free press under Capitalism because any minority is free to establish its own paper. This is legally true, but it means little more than the legal freedom of the penniless unemployed to earn a living as he pleases. Under Capitalism newspapers support themselves largely on revenue from advertising. If the capitalists refuse to advertise in a progressive or radical paper, it cannot afford to put out a paper which is the equal of its competitors. It can survive only as a small paper supported by the donations of its subscribers. At least this has been the case in America. Legal freedom of the press is therefore of little value under Capitalism Only Socialism can create real freedom of the press.

Private ownership of radio broadcasting stations by wealthy capitalists is even more reprehensible than private ownership of the press, for the number of air channels is very limited, and once they are distributed a virtual censorship of radio broadcasts by private capitalists exists. Like the press, the radio is a powerful instrument for the control of public opinion. It ought not to be used for private profit, for this creates false ideals and an oligarchic control over public opinion.

There are more practical though less important reasons for social ownership and operation of radio broadcasting. Private ownership results in constant interruption of nearly all programs by advertising appeals, and this considerably reduces the pleasure of the listeners. It results also in a vast amount of wasteful duplication of service. The same baseball game or speech is broadcast by two or three stations in each of many different cities. At all hours of the day the variety of programs is greatly limited by duplication of similar programs. Every station tries to attract the biggest audience, so they all tend to give the program which they consider most popular and appropriate during each hour of the day. For instance, in a city possessing ten broadcasting stations, all ten stations may give setting up exercises at 7 A. M., band music at 8, cooking recipes at 10, and jazz at 11. Under Socialism there would be no advertising harangues and there would be a carefully thought out division of labor among stations which would greatly increase the variety of programs available at all times. Symphonic music, as well as jazz, would be offered at all hours of the day and night.

Finally, Socialism would make every radio broad-

casting station a link in some nation-wide chain like NBC and CBC and would thus raise the level of all programs to that now offered by these chains. No independent station can afford to hire the best available talent for radio programs, but a chain of a hundred stations can hire such talent and still keep its costs per station below that of an independent station offering a poor and cheap program. In radio broadcasting, as in nearly all other fields of economic activity, the large-scale operation and organization which Socialism will make possible offer very considerable opportunities for improvement in quality and reduction in costs of production. Small-scale independent operation almost uniformly results in inferior goods and higher costs.

We turn next to the problem of a free and democratic pulpit. Socialism in English-speaking nations is a purely political movement without a religious program. It does not propose to subsidize individual churches either directly or indirectly and, on the other hand, it does not propose to persecute any of them. It stands for complete toleration of all religions, philosophies, and scientific theories of life.

Under Capitalism, however, the pulpit is not free. A grossly unequal division of wealth among church members tends to throw the burden of the financial support of individual churches and their ministers upon a handful of wealthy members, who are thereby placed in a position of control over the ideas expressed from church pulpits. If a Socialist minister, and there are many of them, preaches in behalf of Socialist measures for eliminating poverty, disease, and unemployment, he is almost certain to lose his pulpit, and many fine ministers have suffered this punishment. Socialism will go far towards making the pulpit free and

responsive to the majority of church members by socializing industry and thus ending inequality of income due to the grossly unequal distribution of rent, interest, profits, and inherited wealth.

Finally, we may consider the cinema. Moving pictures are inevitably a combination of art and propaganda. All of them present certain ideas to multitudes of adults and this is propaganda. Under Capitalism this powerful instrument of propaganda is entirely in the hands of a small capitalist class, and it is deliberately and shrewdly used to defend the vested interests of this small group of people. The life of Lenin or Trotsky would make a more popular and exciting scenario than that of Disraeli or Pasteur, but it is not produced because it would constitute propaganda for Socialism. On the other hand, many pictures with communist villains or clowns, some pictures with strongly fascist leanings have been produced. Fortunately, the particular handful of capitalists which owns Hollywood happens to be largely Jewish, and this has markedly limited the propaganda for fascism. Suppose however, that they happened to be largely German. The obvious moral is that private ownership of a great instrument of propaganda ought not to be tolerated by a democratic people. Socialism will end this private control of the moving picture industry and prevent its prostitution to private ends.

Before leaving the subject of private control over the cinema, it may be well to answer one very common objection to government control. It is frequently argued that state ownership of such instruments of propaganda as the cinema would enable an administration to stay in power indefinitely and thus establish a dictatorship. There are two answers to this argument.

In the first place, control over these means of propaganda by the representatives of the people is obviously more democratic than private control by a handful of capitalists. The former can result in dictatorship only in accordance with the desires of the voters and their representatives. The later alternative amounts to a dictatorship of irresponsible capitalists to begin with.

In the second place, there is every reason to assume that a democratic Socialist congress will so safeguard the control of the major instruments of propaganda that this control cannot be used for purely party purposes by the party in power. There are many methods of safeguarding control, one of which, ownership and operation by independent coöperatives, we have already suggested for the press. The British have found control over radio broadcasting by an independent commission (BBC) highly satisfactory. We may rest assured that Socialism will be able to solve this problem. After all, if any political party desires to establish a dictatorship, there is nothing whatever in Capitalism to prevent state control and abuse of the press, the radio, the church, and the cinema. This has been repeatedly demonstrated; witness Hitler and Mussolini. The only effective bar to dictatorship is popular support for democracy, and this has been and will continue to be materially strengthened by the rise of Socialism.

Chapter XI

SOCIALISM WILL ELIMINATE THE WASTES OF CAPITALISTIC PRODUCTION

By far the most important single argument in favor of Socialism is the argument that it will greatly improve the efficiency with which all economic activities are performed and thus bring about a two or threefold increase in the total national income. It is true that a more equal distribution of the current national income would improve considerably the standard of living of the working class,* but the opportunity for improvement in this way is very limited as compared with the opportunity for improvement through greater efficiency in economic activity generally. Under Capitalism the average worker is not seriously cheated or exploited. He receives almost the full value of his labor.† Unfortunately, however, the full value of his labor is relatively small due to the inefficient methods of production which are typical of Capitalism. Socialism will greatly increase the wages of labor in all of these industries because it will eliminate the gross wastes arising from the competitive Capitalistic organization and operation of these industries. We shall devote the next six chap-

*An equal division of the 1944 national income would have given every worker an income of over $2,600 a year, but of course equal distribution might so diminish personal incentive to efficiency that the total national income would rapidly decline to a much lower figure.

†Of course there are exceptions to this generalization. Some workers are underpaid, but some also are overpaid.

ters to this argument. In the present chapter we shall explain how Socialism will increase the efficiency of production in the narrow and popular sense of production, that is, as distinct from transportation, marketing, finance, etc.

The wastes of Capitalism described in this and subsequent chapters are wastes typical of Capitalism in time of peace. A great war, like World War II, causes the temporary partial or complete elimination of some of these wastes. But they usually reappear and often grow even more serious once peace has returned.

Socialism will increase the efficiency of production by eliminating the uneconomic duplication of facilities and services due to competition between independent producers. This waste is found in every competitive or semi-competitive industry, but we shall cite only three of the best known cases to illustrate our point.

Let us begin with the oil industry. In the Signal Hill oil field near Long Beach, California, oil wells cost between 50 and 100 thousand dollars to drill. If this field were owned and developed by a single company, the number of wells drilled would be reduced to the economic minimum in order to save the cost of drilling additional wells. Perhaps one well for every 100 acres would be sufficient, for all of the wells in this field tap the same underground pool of oil. As a result of divided ownership and competitive development, however, this field is now a dense forest of oil derricks, with wells on every thirty foot city lot in many sections of it. Thousands of economically unnecessary wells have been drilled, and each thousand wells represents an investment of between 50 and 100 million dollars. Although economically unnecessary, these wells are

sound and indeed highly profitable private investments. They enable each land owner to get some of the oil out of the common underground pool before it is drained dry by other land owners. As a result of the competitive scramble for this oil, the pool is actually fast drying up, and those land owners who failed to get their share while the getting was good are simply out of luck. Incidentally, this rapid drying up of the pool will soon render useless the entire capital invested in this field, including necessary as well as superfluous wells, pipe lines, and other facilities.

Turning to the bituminous coal mining industry, we find a similar, though by no means so extreme, waste due to unnecessary duplication of facilities for production. It has been estimated by a number of authorities that even in the years 1927-29 the production of bituminous coal was only two-thirds of the capacity of existing mines. In the decade 1931-40 the ratio of output to capacity was even lower, in spite of the rapid abandonment of mines.

In the boom year, 1929, 361 million pairs of shoes were produced, but the full use of shoe machinery already installed in plants would have yielded an output of 550 million pairs. By the rental of additional existing but unused equipment in the hands of the United Shoe Machinery Company, production could have been still further considerably increased.*

Competition inevitably tends to create idle capacity. One producer cannot compete with another unless he already possesses idle production capacity. It would be futile for one firm to try to take business away from

*For our figures on coal and shoes see the *Report of the National Survey of Potential Product Capacity,* pp. 66–67, 104–5.

a competitor unless it was able to care for that additional business with its existing equipment.

Competition also makes it much more difficult to estimate future sales and to plan for the proper equipment to care for those sales. The sales of an entire industry are much more predictable than the sales of the average competitive producer in that industry. By unifying each industry into a single trust, Socialism will make prediction of future sales and, hence, of future demands upon capital equipment, considerably more accurate, and will thus prevent over-expansion of such equipment. The elimination of the business cycle, of course, will do even more to promote this end.

Socialism will considerably increase the efficiency of production, and thus raise real wages, by eliminating waste due to the uneconomically small scale of production which inevitably results from Capitalistic competition.

Perhaps the major evil of small-scale production is the fact that it prevents a full development of the division of labor. In the small factories so numerous under Capitalism, every worker must perform many different operations and use several different machines. As a result he learns to perform none of these operations perfectly and wastes much of his time changing from one operation to another and from one machine to another. Whenever he begins a new operation, he is compelled to put away or lay down his old tools and materials and to get out or pick up new tools and materials. The efficiency of a Ford assembly line is possible only because mass production permits a thorough division of labor which makes it unnecessary for the worker to change frequently from one operation to another.

Small-scale production also renders uneconomical the use of large, expensive, or highly specialized machinery and tools. The automatic conveyors used in the Ford assembly lines are an example of this type of machinery. An automobile factory producing only a thousand cars a year cannot afford to install such a system of conveyors because of its small volume of business. Similarly in a large factory it pays to develop a new tool designed especially for each individual operation, but in a small factory it is necessary to use less efficient tools suited to a variety of uses.

The opportunity for the use of large and specialized machinery or tools created by mass production leads to the more or less inevitable invention of these machines and tools. Each new advance in the division of labor simplifies individual operations, thus increasing the chance that some one will think of a new machine or tool to use in performing the operation. Mass production speeds up the rate of technical progress.

The handicaps of small-scale productions are even more obvious in the office than in the shop of a small factory. It is more difficult for one person to learn and carry on cost accounting, finance, sales management, personnel management, budgeting, etc., than it is for a single workman in the shop to learn to operate several different machines and to perform several different operations. One of the most significant advantages of large-scale production is that it makes possible a greater division of labor in clerical and managerial work. It is also possible to use many more expensive and specialized forms of office equipment, such as tabulating machines, in a large office than in a small office.

Small-scale production not only makes it impossible to attain an efficient division of labor in managerial

work, but also makes it necessary to intrust supreme executive responsibility to relatively incompetent men. A small factory cannot afford to pay 25, 50, or 100,000 dollars a year to its general manager and hence, it must get along under the supervision of a far less capable manager. The supply of gifted and properly trained executives is scarce and will continue to be scarce under Socialism. The only way to secure the maximum benefit from this able management in all factories is to reduce the number of factories and to place all factories under the control of great trusts managed by the most brilliant executives of all. Socialism will do its best to achieve this.

Of course, if the ablest executives are required to supervise a much larger volume of production, they cannot supervise it as intensively as they now supervise a fraction of the total output. Hence, they will have to restrict themselves to the most important problems of their enterprises. In effect, this will amount to a more complete division of managerial labor.

In order to appreciate the significance of the benefit which Socialism will bring by increasing the scale of production, it is necessary to be familiar with the real extent of small-scale production under Capitalism. So much publictiy has been given to the Ford plant and similar large enterprises in recent years that the average citizen believes that nearly all production is now carried on in an equally efficient manner. Such is by no means the case, however. If we examine the figures given in that instructive compendium, *The Statistical Abstract of the United States,* we find that in 1929 there were no less than 211,000 individual factories with an output of more than $5,000 a year in the United States. Nevertheless, 69.2% of the total fac-

tory output came from 11,763 factories producing over a milion dollars worth of goods apiece. Most of the remaining two hundred thousand were obviously too small for economical production. Thus we find from the same source that the annual output per worker in these small plants averaged only $5,856 while the average was $9,461, or 62% more, in the larger factories. But a factory producing only one million dollars worth of goods a year, while relatively large under Capitalism, is really quite small, much too small to secure the full economies of large-scale production. The Ford plant could not continue to use its present efficient methods of mass production if its output were reduced to the relatively small value of a million dollars a year, or even to the much larger sums of ten or twenty or thirty million dollars a year. We may be sure, however, that the great majority of the 11,763 larger plants noted above were of a relatively small size and produced a lower output per worker than the few really large plants. Indeed, even the largest plants under Capitalism, such as the Ford plant at Dearborn, are not large enough to attain the maximum advantages from large-scale production. A consolidation of the Chevrolet and Ford plants would make possible a further division of labor and specialization of equipment both in the shop and in the office, would reduce necessary inventories of supplies and materials, would facilitate budgeting and planning, would reduce purchasing costs, would lower total executive salaries and at the same time improve the quality of management, would cut engineering and designing costs, would cheapen the cost of converting waste and refuse into by-products, and so forth.

In view of these obvious savings to be secured from

increasing the scale of production, why have private Capitalists failed to take anywhere near full advantage of them? In the first place, the relatively short history of Capitalism is partly responsible. The automobile industry, for instance, is only 40 years old, and although the abler producers in that industry have expanded very rapidly, they have simply not had time to learn how to take full advantage of the economies of mass production or to secure the market and capital necessary for this purpose. Moreover, there is a large amount of inertia in human as in physical movement, and this results in an inevitable technical lag. We must remember that it took the new English textile mills two or three generations to displace the independent hand weavers and spinners, although there was never any doubt as to which method of production was most economical. The ability of small independent producers to delay the progress of economic evolution is due in part to a willingness to accept wages and profits much below what they might earn if investing in and working for a large establishment. Of course the scarcity of jobs and relative immobility of labor characteristic of Capitalism play an important part here. Only in a Socialist society can a worker impoverished or displaced by technical progress be certain of securing a new job at good wages whenever he desires it. In the second place, public and governmental hostility has prevented such desirable mergers as that of General Motors and Henry Ford. In this field it is popular prejudice and emotion which rules, not pure business factors. Marx predicted almost a century ago that the big capitalists would eventually drive out the little capitalists. His analysis was based upon economic considerations alone, however, and he failed to foresee

the rise of the great trust-busters, Roosevelt, La Follette, Borah, Hitler, Mussolini, *et al.* These representatives of small capitalists have used the powers of government to block artificially the course of natural and normal economic progress.

We turn now to a consideration of the third principal method by which Socialism will increase the efficiency of production and, hence, the level of real wages, namely, the standardization of products. Under Capitalistic competition the diversification of commodities has been developed to an enormous and highly uneconomic extent. Every independent producer determines his own variety of products, and attempts to avoid duplication of his competitors' products as far as possible in order to prevent a fair comparison of his products with those of his competitors and thus avoid price competition. As a result, we have literally hundreds of thousands of sizes and styles of almost every commodity produced under Capitalism. Most of this variety is wasted because no store ever displays more than a minute fraction of the available variety and few consumers have the time and patience to visit more than two or three stores. A very large proportion of this enormous variety of products occurs in such items as nuts and bolts, nails, gears, garden hose, and other producers' goods or utilitarian consumers' goods in which cases a variety of choice is not only undesired by consumers but makes it hard to secure replacements of broken parts. Diversification of products increases the costs of production because it decreases the scale of production of each variety, thus preventing full realization of the economies of mass production described above. In addition, it greatly increases the size of the necessary inventories at all stages of pro-

duction and distribution and the costs of maintaining them.

While diversification is always expensive, it is worth the cost up to a certain point, since up to this point it increases consumer satisfaction by an even greater amount. Socialism need not eliminate this desirable degree of diversification, but only the excessive diversification which yields no net benefit to the consumer. To be specific, a Socialist state will not reduce the variety of feminine headwear to one style only, but it might reduce the number of styles offered from 1,000,000 a year to perhaps 1,000 a year. There is no benefit to consumers from a variety of choice greater than they have time to look over before making a purchase, and few persons, even among the fair sex, ever try on 1,000 hats before making a purchase. Indeed, a variety too large for personal inspection probably serves to prevent the best selection by the consumer, since it means that his choice is never based upon a complete canvass of the situation. There is always the probability that he has missed some of the best styles because he has spent so much time inspecting relatively inferior styles.

The chief opportunities for economical standardization come, not in the case of such goods as women's hats, but in the case of such goods as garden hose, gasoline, radio tubes, and refrigerators. We have discussed the case of women's hats only to show that even in the least promising cases considerable standardization is desirable.

In the fourth place, Socialism will increase the efficiency of production by eliminating the production of shoddy and uneconomic merchandise. For our purpose these terms may be considered as synonymous and to

mean merchandise which ought not to be produced and sold because, although cheap in initial cost, in the long run it costs the consumer more than the purchase of more expensive commodities.

Shoddy goods are produced in enormous volume under Capitalism because producers are interested in private profit only. If they try to be philanthropic and sacrifice profits to the interest of the consumer, they are soon outdistanced, or even forced into bankruptcy, by their competitors. The production of shoddy merchandise yields large profits because consumers are unable to tell the difference between sound and inferior merchandise. Producers are experts in their own fields; they know the cost and durability of the different materials they use. Consumers are amateurs in almost every field and are incapable of evaluating the quality of the workmanship and materials in the goods they buy. Hence, it ought to be the duty of the producer, not of the consumer, to determine minimum standards of workmanship and materials. This would be the arrangement in a Socialist society, but it is impossible in a society where producers are compelled to earn profits in competition with unscrupulous competitors.

A few illustrations of the production of shoddy merchandise in the United States will clarify the point. In the fall of 1931 the Lambert Pharmaceutical Company of St. Louis, makers of Listerine, published full page newspaper advertisements in the country's leading newspapers in which it was stated that 203 mouthwashes submitted to a chemical examination "94 had no effect on germs, 49 others worked too slowly to be practical for gargling." This left 60 mouthwashes practical for gargling. Undoubtedly many of them were

much cheaper and more effective than Listerine, but, of course, the advertisement did not give this information. In a Socialist society only the mouthwashes most suitable for the purposes for which they should be used would be produced. This would lead to an economical standardization of products as well as to protection of the consumer in a matter of vital importance, his health.

In similar magazine advertisements published in 1934 the relatively reputable General Electric Company informed the public that "a lighting expert who had tested thousands of lamps—good and bad—under scientific laboratory conditions" had found that "there are 'bargain' lamps on the maket today that you could not afford to burn even if you were given the lamps free and handed a one dollar bill with each one besides", because such lamps burn more electricity and raise the consumer's bill for current by more than a dollar.

For our third and final illustration we turn to the most important single commodity of all, namely, houses. In the fall of 1935 Mr. L. Gerald Leans, housing expert and director of the Welling Estate Ltd. of London, and who represented interests planning the construction of 3,000 small homes and apartments, came to the United States. After inspecting a number of low-cost developments in or near New York City he stated in an interview published in the New York *Times* that he was "surprised" that "jerrybuilding still existed here," and predicted that some of the dwellings then being offered "would not have a useful life of more than five years. Nothing can prevent many of these houses from becoming derelict within five years," he concluded, "and I even believe in some cases there is strong danger from high winds or a heavy fall of

snow." This statement may well contain some exaggeration, but Mr. Leans made a number of specific and serious technical charges in his interview.

In the fifth place, Socialism will improve the efficiency of production, and thus raise real wages, by facilitating the elimination of seasonal fluctuations in the volume of production in many industries. To illustrate this point, we shall use the coal mining industry. The consumption of coal is highly seasonal due to the fact that domestic consumption is very small in the summer and very large in the winter. Since there are about 5,000 different coal mining companies, none of which can predict its sales ahead of time, and since the major costs of seasonal production fall upon the workers and the community rather than upon the individual managements responsible for it, the producers of coal do not operate their mines at a relatively stable rate throughout the year, but maintain small inventories only and wait until these have been sold before they replace them. Hence, there is a very marked seasonal fluctuation in the production of coal. The miners work overtime during the peak fall and winter months, and have only two or three days of work a week during the spring and summer. For the entire year they averaged only 192 days in 1930, although a six day week prevailed in the industry then. This forces the miners to demand a high daily wage in order to secure a modest annual income. This high daily wage does not serve as an incentive to the producers to stabilize the volume of production, however, since no individual producer can lower the prevailing wage rate, particularly in unionized areas, by stabilizing production in his own enterprise.

All of this would be changed under Socialism. The

establishment of a single coal mining monopoly would greatly facilitate the prediction of future sales and prices and thus reduce the risks now involved in producing surplus stocks during periods of low consumption. It would also provide for the financing of such stocks, and would considerably reduce the other costs of storage by greatly increasing the scale of all storage operations. What is more important, however, Socialism would measure the full costs of seasonal unemployment and place them upon those trusts responsible for them. This would serve to increase the costs of production during peak periods and to decrease them during off-peak periods. Then a mere calculation of monetary costs would serve virtually to eliminate the marked seasonal fluctuations now prevailing in the industry.

There are, of course, certain industries, such as the canning industry, in which production is necessarily highly seasonal. Socialism would compel such industries to bear the full costs of the seasonal unemployment and movement of labor which they make necessary and now escape, and would also route each individual seasonal worker from industry to industry, plant to plant, and farm to farm throughout the year so that his necessary costs of movement and periods of idleness would be reduced to a minimum, and so that he would always perform work for which he was best fitted. It would also coördinate the operating schedules of different seasonal industries so that there would be a minimum peak demand for labor. Finally, it would deliberately create certain artificial seasonal industries to take up the surplus of seasonally unemployed labor caused by the existence of inherently seasonal industries like canning.

Chapter XII

SOCIALISM WILL ELIMINATE THE WASTES OF CAPITALISTIC TRANSPORTATION

Once goods have been produced, they must be moved to market. Over one eighth of the national income of the United States is spent for transportation services.

In American transportation, unnecessary and uneconomic duplication of services and facilities is the outstanding waste due to competitive Capitalism. This waste is particularly serious in the case of the railroads because the capital costs of railroad transportation are notably high, and, therefore any duplication of facilities is unusually costly.

The entire area of the United States is covered by a network of competing railroad lines and highway transportation services, over half of which represent unnecessary and costly duplication of faciilties. For instance, there are three main transcontinental railroads and several competing highway services operating between Chicago, Minneapolis, and the Pacific Northwest. One main through line would be more than ample to care for all through traffic, and local traffic now handled by uneconomic railroad mileage could easily be cared for by auxiliary truck and bus service. The consolidation of these through railroad lines, moreover, would make possible the creation of a new main line superior to any of the three existing lines, since the best sections only of each of these lines would

be taken into the new system. At present, each of the competing lines has important advantages in location or equipment over a part of the route.

Similarly, the through traffic now moving east from St. Louis over five main railroad lines and several highway transportation services could easily be handled more economically by the two best railroad lines, and the through traffic now moving east from Chicago over eleven railroads and many highway transportation services could easily be handled by the five best located and equipped of the existing railroads.

Perhaps the most obvious waste of competitive Capitalistic transportation, and certainly the most annoying to the general public, is the unnecessary duplication of passenger terminals. Innumerable small American towns have two or three passenger stations, each with its own staff of employees. In the great cities the number of independent stations is frequently much greater, and many through passengers find it necessary to take a slow bus trip through heavy traffic in order to get from one train to another and resume their journey. New Orleans, Chicago, and New York are notable examples of such gross inefficiency.

The consolidation of competing freight terminals in all American towns and cities is even more important than the establishment of union passenger terminals since the revenue from freight is about six times the revenue from passenger traffic. New York City is a beautiful example of wasteful competition among railroad freight terminals. The west bank of the Hudson is disfigured for miles by the numerous independent freight terminals of competing carriers and each of these carriers maintains its own lighterage and car-ferrying facilities. On the opposite side of the river

each railroad must also maintain its own wharves and freight yards to receive and distribute freight. A few years ago when the construction of a single additional competing terminal was being considered the cost was estimated at $75,000,000. It is probable that American railroads have more capital invested in competitive terminals than in all the remainder of their properties.* Consolidation of railroad terminals at New York and Chicago alone would save between 40 and 60 million dollars a year according to the estimates of the experts who prepared the well known Prince Plan of railroad consolidation.

Consolidation of the railroads into a single system would also eliminate the indirect routing of traffic caused by competition. Every private railroad tries to secure as much traffic as possible by diverting freight from direct routes over competitive lines. Frequently railroads even offer lower rates in order to secure this end. In some cases the additional mileage is only 10 or 20% of the direct route, but in other cases it is more than 100%. Thus, much traffic moves from Chicago to Los Angeles by way of Seattle, and from Chicago to San Francisco by way of New Orleans and the Southern Pacific. The Interstate Commerce Comission found that certain railroads controlled by lumber companies sent their shipments by long roundabout routes in order to obtain a greater proportion of the joint through rate; in one case freight was sent 76 miles and then brought back almost to the starting point, although a switching movement of one mile would have advanced the freight just as far toward its destination.

*Moulton, *The American Transportation Problem* (1933), 783.

Wheat moving to the Pacific Coast is sometimes shipped hundreds of miles east before starting west because the rate is the same as for the direct route.*

Individual ownership of railroad cars and locomotives causes serious economic wastes under Capitalism. One of these wastes is unnecessary empty car mileage. Every American railroad must pay a fixed rent, called a *per diem* charge, for each day that a freight car owned by another line is in its possession. The number of these "foreign" cars is very large, since most through freight moves over more than one line. If this rent is too low, as is usually the case in times of car shortages, every railroad tries to keep "foreign" cars as long as possible and use them for its own private purposes. If the rent is too high, as is usually the case in normal times, every railroad tries to return "foreign" cars to their owners as soon as possible in order to reduce the total rent charges. This results in hurrying cars home either empty or only partially loaded. Frequently empty cars are found moving in opposite directions on the same line at the same time as the result of these efforts. Cars of other roads are also commonly used with less consideration of the need for repairs, which results in their wearing out prematurely.

Another waste due to individual ownership of rolling stock, as well as to individual construction of lines and terminals, is the failure to standardize equipment. Every railroad is free to design its own cars and locomotives in a different manner, thus increasing both original costs of manufacture and recurring costs of maintenance and repair. Moreover, every road must

*Moulton, *American Transportation Problem,* 848–9.

maintain inventories of spare parts for all of the many types of "foreign" cars, as well as for its own cars, if it is to be in a position to repair them. This increases repair costs. In the third place, private ownership of rolling stock makes necessary a larger total number of cars and locomotives. Each independent railroad must prepare to meet its own peak load, because it cannot be sure of assistance from its competitors. Moreover, it is more difficult to estimate the peak loads for individual parts of the national railroad system than for the system as a whole, and it is therefore necessary to maintain larger total reserves of idle cars and locomotives.

Finally, individual ownership of rolling stock makes impossible an orderly and stabilized program of car and locomotive replacement. Independent railroads may bunch most of their replacement orders in the same years, leaving car and locomotive manufacturers virtually without orders in other years.

These and other wastes of divided ownership and control are so great that the late Federal Coördinator of Railroads, Joseph B. Eastman, estimated the savings from pooling of rolling stock alone, with continued private competitive operation of the lines themselves, at $100,000,000 a year, $75,000,000 to be secured from the elimination of empty car mileage and $25,000,000 to be secured by the reduction of interest on the total investment in cars and locomotives made possible by coördinated operation and purchase.

Another important advantage which would result from the consolidation of many competing Capitalist transportation companies into a single Socialist transportation trust is a marked increase in the scale of operation. We have pointed out that the elimination

of duplication of physical equipment, which in itself is a great saving, involves concentration of traffic on a much smaller number of railroad, highway, airplane, and steamship lines. This concentration of traffic will increase the scale of operation over these remaining lines and make possible many economies of mass transportation.

All forms of transportation operate under what economists call "decreasing costs." That is to say, the larger the volume of business handled over a single route by a single form of transportation, the lower are the average unit costs. One of the important reasons for this fact in the case of railroads is that it is necessary to build a complete railroad in order to haul one car of freight, while it adds virtually nothing more to the cost to haul two carloads of freight instead of one over the new line. Even when American railroads are carrying a large volume of passengers and freight, as they were in 1941, the cost of carrying additional freight, i.e. the variable costs, are only about one third of the average costs for freight already being carried. The concentration of freight now being handled by many unnecessary duplicating railroad lines on a few necessary railroads will make it possible for these remaining railroads to handle all of this additional freight at about one third the average costs prevailing previously. In large part this saving will be due to the elimination of the interest and maintenance cost of the abandoned mileage, but in part also it will be due to considerable improvements in the operation of the remaining mileage, these improvements being made possible by the resulting increase in the scale of operations.

When a railroad carries more freight, it can increase

the average length of its trains. This lowers the ratio of locomotive and crew costs to total costs. Under Capitalism longer trains throw railroad workers out of jobs, and cause them to work for and obtain laws preventing the operation of such trains, but under Socialism long trains will reduce costs and raise real wages throughout the nation without causing any unemployment or laws against efficiency for there will be jobs at prevailing wages available for all displaced workers.

In the case of air travel, the economy analogous to that of longer trains is that of a larger plane. A passenger plane carrying 36 passengers does not cost nearly as much to operate as two planes carrying 18 passengers each. The same holds true for busses and steamships. By eliminating competition between airlines and bus lines, Socialism will make possible the use of larger planes and busses.

When a single railroad carries more freight, it can also make up more solid through trains of cars all destined to the same point. Such solid trains are more economical to handle than mixed trains since they reduce the number of stops and the very considerable costs of switching cars in and out of the trains at intermediate points. This applies to highway, air, and water transportation as well.

When a single railroad carries more freight, it can secure a heavier loading of individual cars. When the government took over the railroads during World War I, it found that the average loaded freight car carried only 56% of its capacity, and this was a period of very heavy traffic movement. The efforts of the government to increase this percentage in the short period of government control were relatively unsuc-

cessful because the primary purpose of control was to move essential war supplies at any cost and because it did not materially alter the competitive organization and operation of the railroads, but a Socialist transportation monopoly would be able to improve this percentage very considerably by concentrating traffic on a smaller number of lines. However, the principal cause of the waste of unutilized car capacity is competition among the shippers rather than competition among the railroads. By consolidating all small shippers whose volume of business is not large enough to justify full car loadings into large trusts which could economically ship in full car loads, Socialism will do more to raise the percentage of car utilization than by consolidating competing transportation agencies.

In the case of passenger travel also, concentration of traffic over a smaller number of lines will increase car utilization. Under Capitalism it frequently happens that two passenger trains, busses, airplanes, or steamships leave the same city for the same destination at about the same time, each half full.

When a single railroad carries additional freight, it finds it economical to buy larger cars and locomotives, to lay heavier rails, to purchase more expensive and more efficient loading and unloading equipment, and so forth. In other words, an increase in the scale of production, here as elsewhere, makes possible the economical use of machinery and equipment too expensive for use at the former scale of production. This applies to all forms of transportation.

For these and other reasons, Socialism will considerably reduce the costs of transportation by concentrating freight and passenger traffic on a much smaller number of railroads, bus lines, air lines, and steamship lines,

and this reduction in costs will be much larger than that made possible by eliminating duplication of capital facilities alone.

Still another important economy which will result from the unification of competing Capitalist transportation companies into a single Socialist transportation trust is the elimination of innumerable inter-company transactions. Every time a shipment passes over two or more railroads it gives rise to unnecessary and, in the aggregate, very costly inter-company accounting for the division of the revenue, *per diem* charges, repair charges, damage claims, etc. The basic waste here is the cost of the original accounting entries, but a few figures concerning the smaller costs of reauditing these accounts will give an idea of the gross waste involved. Each railroad audits its own inter-line accounts twice after the original calculation in order to determine errors. Thus each bill is added up six times, three by each company. For a long time, however, certain large railroads have hired outside auditors to go over these accounts a seventh time and report errors *in favor of* the client. One audit bureau, the National Railway Examiners, Inc., recovered $4,662,452 for its clients in the period 1924-34 by discovering errors in favor of its clients. This practice was very severely condemned by Federal Coördinator Eastman who has referred to it as a "gouging practice" enabling certain roads to "gyp" others, but the chief significance of these figures is an indication of the economic waste involved in the mere existence of inter-company accounts under Capitalism.

Another major advantage of Socialist unity over Capitalist competition in the field of transportation is that it would make possible proper coördination be-

tween the use of different forms of transportation, particularly between highway and rail transportation. Thus far no comprehensive study of the relative economy of rail and highway transportation over each route in the United States has been made, so that it is impossible to tell where rail transportation is more economical, but we may assume that over every traffic route and for each type of freight service one means of transportation is more economical than any other and should be exclusively used. The mere fact that Capitalist transportation companies have made little effort or are unable to secure and use this data is a clear demonstration of gross economic waste, for it means that a large volume of traffic is moving by rail when it should move by highway, and *vice versa*. This condition is a natural result of Capitalist competition between rail and highway transportation companies, for we cannot expect a private trucking company to advise its shippers to use a competing rail service because the costs, but not the rates, of the competitor are lower. A private railroad likewise would prefer to have a small profit for itself to a large profit for a competing trucking company. In many cases, moreover, it is necessary to use a combination of rail and highway service in order to secure minimum transportation costs.

Another very important opportunity for coördination between different forms of transportation occurs at railroad terminals. The railroads should own and operate all trucks used to pick up and deliver freight at their terminals. This would result in a more complete utilization of trucks and terminal facilities, since all pickups and deliveries would be planned ahead of time by a single office in such a way as to produce a

smooth flow of traffic through the terminal. It would permit the concentration of freight at district freight offices in large cities. It would permit standardization of all equipment used and of all repair parts and repair work. It would permit the use of standardized truck bodies and unit containers which could be shipped intact from consignor to consignee, as they would fit railroad cars and pick-up and delivery trucks over the entire railroad net work. It would justify the development of expensive standardized equipment for transferring freight from trucks to railroad cars at all terminals. It would eliminate time-consuming transfers of freight between railroads and independent trucking companies and would place the responsibility for damages and prompt delivery upon a single agency, whereas it is now frequently divided among the railroad and two trucking companies, one at each terminal. It would eliminate the bookkeeping and financial transactions between the railroad and these trucking companies. In summary, Socialism in transportation would reduce costs by making possible the proper coordination of rail and highway transportation both in the movement of freight and passengers between terminals and in the operation of the terminals themselves.

Another advantage of Socialism in transportation is that it would permit the senior executives of transportation organizations to turn their attention from the financial, legal, and traffic problems, to which they now devote virtually all of their time, to the major operating problems of the services under their control. Senior executives are, or should be, the most able men in the organization, and the manner in which they spend their time is therefore of the utmost importance. Under

Capitalism they are compelled, first of all, to devote a great deal of it to the problem of securing adequate finances at the minimum cost by arranging bank loans, selling bond issues, issuing rights, refunding outstanding securities at a lower rate of interest or dividend, and so forth. So important are these problems, which would completely disappear under Socialism, that many railroad presidents are primarily chosen because of their experience and ability in solving them.

Under Capitalism senior transportation executives are also compelled to devote a large part of their time to securing new or retaining old traffic. They grant secret or indirect rebates, illustrated by the low rentals on railroad grain elevators at Kansas City, in order to secure or hold the trade of large shippers. They make secret agreements with connecting lines, and often spend large sums trying to secure control of them, in order to take business away from their competitors. They hire traffic solicitors to go from shipper to shipper begging for more business at the expense of competitors. Since rates are fixed by the I. C. C., competition takes the form of uneconomical or free services, such as reconsignment, diversion, and milling in transit. Big shippers play off one road against another until they are granted the maximum free service, and all of this requires an unproductive expenditure of time upon mere haggling and bargaining.

Moreover, we may note that legal and political problems absorb a considerable share of the time of senior transportation executives. So important are legal matters that every railroad has one senior executive called a general counsel, who, with his staff, of subordinates, devotes full time to these problems and receives a very large salary. It may be more profitable for a

Capitalist railroad to win a suit against another railroad, or the I. C. C., or some state commission, or a railroad labor union than to electrify its lines or reorganize its repair shops, and these suits therefore receive more attention from senior executives than mere operating problems. Under Socialism, transportation executives would be able to devote all of their time to operating problems since most other problems would be entirely eliminated by the nature of the economic order, and since the pay and promotion of senior transportation executives would depend entirely upon their success in solving operating problems.

Finally, the change from Capitalist competition to Socialist unity in the field of transportation would reduce costs and raise real wages by eliminating the need for government control of many independent transportation companies. In the fiscal year ending June 30, 1933, the Interstate Commerce Commission spent seven million dollars, almost entirely upon supervision of the railroads. In the preceding twenty years it had spent over forty-six million dollars upon one project, the valuation of the property of the railroads. The expenditures of the I. C. C., however, represent only a minor fraction of the costs of commission control, for there are forty-eight state commissions possessing very wide powers over interstate railroad operations. The expenditures of all railroad commissions again, represent only a minor fraction of the total costs of commission control, for most of these costs are met by the railroads themselves. The valuation project of the I. C. C. cost it over $46,000,000, but this same project forced the railroads themselves to spend about $138,000,000.

In addition to the costs of commission control over

American railroads, there are considerable costs resulting from other types of control. Congress and all state legislatures are compelled to spend a significant portion of their time considering new or old laws applying chiefly to private railroads, and our statute books contain thousands of such laws. The courts are forced to waste valuable time hearing innumerable suits of the federal or state governments against the railroads, or *vice versa*. The Securities Exchange Commission is forced to examine each of the literally thousands of different railroad security issues, and there are other less important costs of government control of private transportation companies.

Chapter XIII

SOCIALISM WILL ELIMINATE THE WASTES OF CAPITALISTIC MARKETING

The replacement of Capitalism by Socialism will yield enormous economies in the field of marketing, and all of these economies will serve to increase the real income of workers and to shorten their hours of labor. Capitalism has given rise to greater wastes in marketing than in production or transportation, and this is one reason why the total costs of marketing absorb over a third of the national income.

Bourgeois economists have rarely recognized the magnitude of the costs of competition in marketing. Rather, they have taught that competition in industries which they call "natural monopolies" is far more wasteful than competition in such highly competitive industries as retail distribution. This is a very great error. It is just as wasteful to have four gas stations at a single street intersection as to have four gas mains down a single street. Indeed, it may be argued that it is more wasteful, since the four gas stations, require four attendants who are idle most of the time, while the four gas mains do not require the constant attendance of four workers. This argument is as sound as the conventional argument that the waste of competition is greater in the case of "natural monopolies" because they involve a heavier capital cost, and, hence, the cost of duplicating the physical capital is greater. Competition involves duplication of services as well as duplication of facilities. It follows that the whole bourgeois theory of natural monopolies is unsound, for

monopoly is not more natural or desirable in these industries than in any other. Moreover, since a large degree of monopoly has already been attained in such industries, they have the least to gain from the further development of government ownership and monopoly, that is, of Socialism. Conversely industries such as marketing have the most to gain from Socialism.

We turn now to a detailed statement of the economic wastes which result from competitive Capitalism in marketing. We shall begin with waste due to duplication of facilities and services.

In every advanced Capitalist nation there are two or three times as many retail stores and retail store managers and employees as are needed to care for the existing volume of business with existing retail methods. This is due to the fact that every optimistic small capitalist or worker with credit is free to enter the retail trade at any time or place, regardless of the need for additional retail stores.

The competition of new and unnecessary retail outlets serves, not to lower prices and drive out the superfluous stores, but to raise prices so that both new and old stores can continue in business and earn a fair profit. This process has been clearly described by the well known Swedish economist, Knut Wicksell, in the following words:

"If, for example, two shops of the same kind are situated at different ends of the same street, it would be natural that their respective markets would meet in the middle of the street. Now if a new shop of the same kind is opened in the middle of the street each of the others will, sooner or later, lose some of its customers to the new shop, since the people living round the middle of the street believe that if they get the

same goods at the same price they are saving time and trouble by making their purchases at the nearest shop. In this, however, they are mistaken, for the original shops which have now lost some of their customers without being able to reduce their overhead costs to a corresponding degree, will gradually be compelled to raise their prices — and the same applies to the new competitors who have been obliged from the beginning to content themselves with a smaller turnover. . . . The correct remedy, unless one of the competitors (such as a great store) manages to overshadow all the others is clearly the formation of some form of organization among buyers."*

In order to eliminate this waste, the organization of buyers must be complete. Consumers' coöperatives, while a fine thing for other reasons, cannot eliminate this waste because they cannot eliminate competition. Socialism alone provides this complete organization of buyers.

It should be noted that the evil described by Wicksell has no limit. Once the new store midway between the two old stores has forced prices up to a level which permits profits for all, there is nothing to prevent the process from being repeated again and again until the retail markup on all goods is two or three times what it should be. This is what has actually happened under Capitalism.

The second major marketing waste caused by competitive Capitalism is the uneconomically small scale of production. Chain stores and large unit stores have repeatedly demonstrated their ability to reduce marketing costs, and they are slowly driving out small

*Lectures on P. E. (1901), 87–8.

independent stores, but this process has been going on for fifty years in the United States and may require another hundred to complete itself under Capitalism. Socialism could achieve the major benefits of this 150 year process in five or ten years. Moreover, it could do so without throwing millions of independent merchants into bankruptcy.

The economies to be gained from the substitution of large stores for small stores and their organization into chains are very considerable. Several published studies of chain grocery store prices indicate that their prices average about 10% below the prices charged by independent, and that only half of this is due to curtailment of services. This is particularly significant since the average retail markup in the grocery trade is much lower than in other retail lines. In addition, the chain stores make much larger profits and spend more on advertising than their independent competitors. Both of these items would serve to reduce chain store prices still further under Socialism. Finally, the chain stores pay better wages for shorter hours than do their small independent competitors. In a declining industry like that of small-scale retailing, wages are nearly always lower and hours longer than in a growing industry, like that of the chain stores, which must constantly attract new labor. Just as the independent hand weavers and spinners of England virtually had to be starved out of their old occupation by the new textile plants during the industrial revolution, so the owners and employees of small independent stores must today be impoverished in order to persuade them to abandon an out-moded method of distribution. This prevents the full difference in efficiency between chain and small independent stores from becoming obvious,

for it is offset in part by the despairing efforts and slow bankruptcy of the small independent merchants. Capitalism attempts to reduce the suffering of these merchants by imposing special taxes on chain stores, but this merely delays economic progress.

The many studies of retail store expenses published by the Bureau of Business Research of Harvard University all demonstrate the superior efficiency of large retail stores. A Harvard study of department stores in 1928 divides them into seven classes according to volume of sales and shows that the net gain on the capital invested varies almost uniformly with the size of the store. Department stores with sales of less than $250,000 in 1928 earned ony 2.3% on sales and 5.7% on net worth, while stores with sales of more than $10,000,000 earned 5.8% on sales and 12.1% on net worth. Moreover, the larger stores probably sold at lower prices and paid higher wages, although the study throws no light on these points. The largest stores also spent 3.35% of the retail price on advertising as compared with 2.2% for the smallest stores, an additional expense which would not be necessary under Socialism.

There are many reasons why every increase in the scale of marketing organization or operation reduces the cost of marketing. In the first place, every increase in size makes possible a further division of labor. In a small independent store the proprietor must be a buyer, a salesman, an accountant, a credit man, a personnel manager, a real estate expert, an insurance expert, an advertising manager and so forth, and, consequently, is usually able to perform none of these functions properly. In a large store or chain it is possible to hire trained experts to carry on each of these and many other essential functions. The larger

the chain or store, the greater is the opportunity for specialization. In a small grocery chain it may be necessary to permit one man to buy fish and meat, while in a very large grocery chain it is possible to have a different expert buyer for each major variety of fish and meat.

This increase in the division of labor makes possible a much more general use of existing specialized equipment, and leads to the invention of new equipment. The proprietor of a small independent store cannot afford to use the costly computing and accounting machines in use in the offices of large department stores and retail chains. If he does buy them, they are idle most of the time. Even a typewriter is a questionable investment in many small stores.

In the third place, every increase in the scale of marketing organization makes possible a more complete coördination and integration of retailing and wholesaling operations. It is generally conceded by bourgeois economists that one of the major advantages of chain stores is that they are able to operate wholesale warehouses and retail stores as units of a single distributing organization. This eliminates the selling costs of the independent wholesaler, tends to give each wholesale warehouse a volume of business equal to its optimum capacity, results in a smooth and predictable flow of merchandise through the wholesale warehouses, increases the rate of turnover, radically reduces the number of items that must be carried in stock in the wholesale warehouse, and decreases delivery costs by permitting joint planning of location of warehouses and retail stores. These economies can be carried to their maximum degree only when all wholesale ware-

houses and all retail stores are under the central control of a single marketing trust.

In the fourth place, every increase in the scale of marketing organization permits a further standardization of equipment which reduces both original and maintenance costs for this equipment, facilitates instruction in the use of such equipment, simplifies operating procedures by making them more uniform, etc. For instance, if all retail stores were operated by a single Socialist marketing trust, it would be possible to use the same make and style of cash register for the same kind of work throughout the nation. This would reduce the cost of manufacturing these cash registers by permitting mass production of them, would lower maintenance costs by making it cheaper to maintain a supply of spare parts and skilled repair men in each district, and would simplify accounting procedures by giving uniform records of all sales. The same economies are possible in the case of typewriters, adding machines, store fixtures, delivery trucks, and all other articles used by retail stores.

In the fifth place, every increase in the scale of marketing organization reduces purchasing costs. A chain store which purchases a million dollars worth of canned fruit every year can purchase it more cheaply than a small independent store which purchases only a hundred dollars worth of canned fruit a year. The correspondence and accounting entries required are the same in each case. The packing and shiping costs are lower for the large order. The costs of credit investigation are also less proportionately on the large order. It is true that under Socialism large orders would not increase the volume of business and, hence, the scale of

production of the individual producer, thus lowering his costs, as they do under Capitalism, but significant economies of large-scale buying would continue to exist. Another of them is that large purchases justify a more careful and fruitful study of the sources of supply than do small purchases.

There are additional advantages of large-scale marketing in personnel administration, advertising, window display, accounting, inventory control, delivery service, employee training, and building maintenance, all of which the large department store or chain store carries on more efficiently than the small independent store, but we have already cited enough facts to indicate the great advance in marketing efficiency that Socialism will bring by enormously increasing the scale of marketing operations. Let us turn now to a third major advantage of Socialist marketing, the drastic reduction of selling costs which will result from the elimination of competition.

Competitive distribution offers a large profit incentive to aggressive sales effort. Profits depend upon the volume of business done. The volume of business done can be greatly increased by vigorous salesmanship. The cost of such sales effort is more than offset by the profits on the additional volume of business if competitors do not resort to the same methods. If they do, then the costs of sales effort, being a general expense, can be added to the cost of distribution without driving business away. Human nature is such that men will pay two cents a gallon more for a well-advertised brand of gasoline than they will pay for an equally good but unadvertised brand.

The limit to which sales efforts can be increased profitably is determined by the willingness of the public

to pay more for an aggressively sold product. When the price differential between the passively and the actively sold commodity of the same kind and quality becomes wide enough, the public will refuse to respond to sales effort. But this margin is sufficiently wide to make an enourmous social waste inevitable under Capitalism.

Sales effort is socially useless since it merely diverts demand from one commodity to another without increasing demand or production in any way. Indeed, total production and demand are inevitably curtailed by the precise amount of labor and capital devoted to sales effort. The cost of commodities is raised by the expense of sales effort and every rise in prices restricts consumption. Nor does sales effort divert demand from inferior to superior merchandise. Sales effort is used by all distributors and thus affects the sales of one class of merchandise no more than any other. Indeed, poor merchandise is more likely than good merchandise to be the object of high pressure sales effort.

While there is no basis for the claim that sales effort diverts demand from poor to good merchandise, it is undoubtedly true that some companies and some industries use more sales effort than others. This cannot fail to distort demand in an uneconomic fashion. The consumer cannot balance accurately the marginal utility to him of two alternative purchases when vigorous sales effort is used in behalf of the purchase of one and not in behalf of the other.

The importance of salesmanship in modern business has tended to favor promotion of salesmen at the expense of able accountants, managers, and engineers. Many companies, including some engaged primarily in production, are under the control of men with a

sales personality rather than under the control of the most able administrators. The ability to smile and slap the customer on the back has become more important than the ability to cut costs and save labor and capital.

Such wastes cannot be computed in dollars and cents, but we could find out the costs of aggressive personal salesmanship if we cared to do so. We could count the number of salesmen going from door to door or traveling from town to town and multiply their number by their average salary and expenses and get a definite figure. But Capitalism is not interested in its own costs and makes little effort to collect this, or any other, important statistical data. In its absence we can only make very rough estimates.

The census of 1940 listed 592,327 commercial travelers in the United States. Assuming an average salary and expense of $5,000, we get a total waste of about $3,000,000,000 a year. The same census listed 78,995 "canvassers" and "demonstrators". Assuming an average income of $1,500 we get a total loss of about $150,000,000.

However, the largest loss due to the necessity of aggressive salesmanship under Capitalism is the lost time and effort of sales clerks in stores. The 1940 census gave a total of about 1,404,000 "retail dealers" and 1,747,000 "salesmen and saleswomen (stores)". If we assume that the average proprietor or salesman devotes one half of his active time and effort to personal selling and solicitation, the kind of selling which is entirely absent from a five and ten cent store and which could be replaced by printed information in nearly all stores, and if we assume that the average income of such proprietors and clerks is $1,600 a year,

we get another waste of about $2,500,000,000 due to aggressive personal salesmanship in 1940.

In a Socialist society there would be no need and no justification for permitting sales clerks to attempt to influence their customers' decisions, except where clerks are called upon for advice concerning the technical qualities and uses of merchandise. Customers would be permitted to make up their own minds as to whether to buy or not to buy, and if they walked out of a store without making any purchase, no hostile glances would follow them and no clerk would receive a reprimand or lose a commission.

Personal salesmanship is but one of the many economic wastes which result from the necessity of vigorous sales effort in Capitalist distribution. Advertising is another of these wastes. Much of what we have said concerning personal sales effort applies to advertising. It cannot increase the total volume of sales because the average individual always spends or invests his entire income whether he is urged to do so or not. Hoarded money, moreover, can easily be duplicated by the printing press. Advertising merely diverts demand from one commodity to another or increases the cost of all by enhancing the expenses of distribution.

The evils of advertising are too well known to require extended analysis. Billboards and advertising signs mar the landscape of America from coast to coast. Advertising exploits the lowest human motives, —fear, envy, and vanity. Because advertising occupies more reading space than anything else, it molds the popular philosophy of America slowly but steadily towards a gross and short-sighted Epicureanism. It places in the hands of advertisers as a group, i.e. the capitalist class, effective control over the expression of

political, religious, economic and social ideas in the newspapers and magazines of the nation. It persuades society as a whole to buy more consumers' goods than it would otherwise do, thus slowing down the accumulation of capital and the economic progress of the nation. It trains the public to think illogically, to base their decisions upon partial, unverified, and irrelevant evidence. It teaches them to distrust all statements and to accept lying as a customary and inevitable business practice.*

The cost of these psychic injuries is not subject to computation. However, we have rather accurate estimates as to the economic cost of advertising, which seems to have been about $3,000,000,000 in 1940. At least 80% of this expense would be saved under Socialism.

The pursuit of private profit in Capitalist marketing leads not only to aggressive personal salesmanship and advertising but also renders inevitable a vast amount of misrepresentation concerning the nature of the goods sold. This misrepresentation is so universal that the average consumer has become hardened to it, accepts it as a matter of course, and considers only the most flagrant cases as instances of real misrepresentation. Thus he does not consider as misrepresentation the general habit of the most reliable automobile dealers of claiming a gasoline mileage for their cars ten to twenty-five per cent above that actually secured by the average purchaser, or the almost universal practice of the best clothing stores of claiming that suits which are not all-wool are actually all-wool. Today

*For an ennumeration of many specific cases of this type of misrepresentation, see *Skin Deep* by M. C. Phillips of Consumers Research.

the American public recognizes and resents as undesirable misrepresentation only such gross cases as advertisements which picture a depilatory containing a poisonous chemical as suitable for use on a sensitive skin, or which describe a paint containing white lead as safe for use on children's toys.

In a Socialist society the adjectives used by advertisers and retail clerks will for the first time come to have their literal meaning. Walnut furniture will be made of walnut, not some cheap wood with a thin layer of walnut on top. All-wool suits will be all-wool, or a qualifying per cent will be placed before the term wool. Permanent waves will be permanent, or will be given an honest title. Castile soaps will for the first time contain no other oil than olive oil, as the name implies. We might go on citing such changes indefinitely. Under Capitalism hardly any of the descriptive adjectives applied to goods sold at retail are used in an honest manner.

Under Capitalism the sins of "omission" are even more serious than the sins of "commission" in respect to providing the consumer with honest information concerning the goods he buys. The consumer not only wants to know whether an all-wool suit is all-wool or 50% wool, but also which variety of wool suit will give him the best service for his money. A Socialist marketing trust will take great pains to obtain all such useful information and pass it on to the consumer. Every commodity sold to the consumer will be submitted to elaborate laboratory tests of wearing and use qualities under different conditions, and the results will be stated in plain words and printed in the annual catalogue of all goods sold to consumers. This will be similar to a modern mail order catalogue, except that

it will tell the truth and will give far more useful information. Furthermore, tags containing this information would be attached to all articles on display in retail stores.

Today the consumer does not know whether castile soap is better than ivory for tender skins, whether a Ford is better than a Chevrolet for mountain driving, whether an RCA radio is better than a Majestic radio for distant stations, whether Listerine is better for sore throats than Lavoris, whether flannel is cooler than worsted in summer, whether cheap gasoline damages his motor, whether Pennsylvania lubricating oils are worth their additional cost, and so forth. In a Socialist society many of these decisions will be made for the consumer by the producer through proper determination of what to produce, but the consumer will be provided with answers to all such questions concerning the goods which are offered to him. This reform alone should increase the benefit from a given personal income by 10 to 25%.

Furthermore, Socialism will put an end to the lavish provision of expensive free services offered for competitive purposes by private merchants. Customers who receive credit or delivery services or have alterations made will be required to pay the full costs of such services, and, in particular, those unscrupulous women who are accustomed to order goods on approval knowing that they will return all or most of them will be required to pay the full costs of the original sale, delivery, pickup, and return to stock. Abuse of approval purchase privileges is so widespread that the merchants of a single city, Los Angeles, estimate their loss from it at over a million dollars a year. A fair charge will reduce the abuse of such services, and will reduce retail

prices for those who have been paying for but not using such services.

Socialism will bring with it many other desirable reforms in the marketing of goods, but we cannot take the time to do more than mention them here. It will eliminate the frequent sales and special price reductions used by one private store to take business away from its competitors. This will free the housewife from the onerous duty of reading the daily advertisement in order to discover which store is offering a special on canned fruit, sugar, or whatever else she is planning to buy. If price reductions are socially justifiable, they should not be in effect for short periods only, except in the case of perishable goods. If they are not justifiable, they should not be in effect even for limited periods of time.

Socialism will also make possible the variation of all retail prices from hour to hour throughout the day, from day to day throughout the week, and from week to week throughout the year in such a way as to reduce or entirely eliminate the marked fluctuations in the volume of hourly, daily, and weekly sales typical of Capitalism. This will result in a fuller utilization of the buildings and equipment devoted to retail purposes, and will thus considerably reduce the cost of retail distribution. Under Capitalism precisely the opposite use of price variations is common. In other words, private retail stores frequently reduce their prices temporarily on Saturdays and during other rush periods.

Finally, we may note that Socialism will almost entirely eliminate the hundreds of millions of dollars of losses on account of bad debts suffered by retail and

wholesale merchants under Capitalism. Most of these losses are due to unemployment, sickness, death and other such personal disasters which will either be eliminated, or properly cared for by social insurance under Socialism.

Chapter XIV

SOCIALISM WILL ELIMINATE THE WASTES OF COMMERCIAL BANKING

In this chapter we shall describe the serious economic wastes which result from Capitalism and competition in commercial banking.

A commercial bank is one which grants checking accounts and makes short term loans to business men. Today most commercial banks also accept savings accounts and perform all other banking functions, but in our discussion we shall distinguish sharply between commercial banking and other forms of banking for basic theoretical reasons. Commercial banks alone have the power to increase the supply of money (money is here used as synonymous with the term medium of exchange). Indeed, the vast majority of the money in use in an advanced Capitalistic state is money created by commercial banks in the form of demand deposits and loaned by them to capitalists who use it to increase their supply of physical capital. In the United States over 90% of all purchases and sales are made with this bank money.

Commercial banks not only have the power to create new money in enormous quantities; they also have the power to destroy it. The alternate creation and destruction of huge quantities of money by commercial banks has drastic and far-reaching effects upon the entire economy of a Capitalist state. It is certainly a leading, if not the sole cause, of the business cycle,

and it results in alternate compulsory social saving and dissipation of capital on a large scale.

The manner in which commercial banks cause, or considerably increase the scale of, fluctuations in business conditions may be briefly outlined as follows: Profits and losses are the chief guides to production control under Capitalism. If profits increase, production and employment rise. If losses occur, production and employment decrease. Now commercial banks have the power to increase profits throughout industry by extending new loans and thus increasing the supply of money in circulation, and they have the power to cause general losses at any time by calling their loans and thus decreasing the supply of money in circulation. An increase in the supply of money raises prices because it enables many people to increase their demand for goods the supply of which remains the same, and conversely, a decrease in the supply of money causes prices to fall because it compels many people to reduce their demand for an unaltered supply of goods. When prices rise, profits rise even faster because wages, bond interest, contract rent, taxes and some other costs do not rise as fast as the prices of finished commodities. Conversely, when prices fall, profits fall and losses appear even more rapidly because these same costs do not decline as rapidly as wholesale prices, the prices producers receive for their products.

Thus, when commercial banks increase their loans to business men, they cause prices to rise, which in turn increases profits in all branches of production and creates business prosperity. Conversely, when commercial banks call their loans or fail to renew them, they cause prices to decline throughout the nation and give rise to a minor or major business depression.

It has been charged by certain critics that the bankers deliberately increase and decrease the supply of money in order to cause booms and crises from which in turn they can profit by selling property at high prices and buying it back again at low prices. This charge is unfounded because it credits the bankers with more organization and ability than they possess. Actually they compete with each other and are unable to form a monopoly powerful enough to manipulate the price level for their own benefit. It follows from this that they are also unable to control the price level in such a way as to prevent the alternation of booms and depressions. Under competitive Capitalism bankers are like a flock of sheep. No one of them is able to move in a direction different from that of the flock, for if he does he will in periods of deflation lose his reserves as a result of repeated unfavorable balances at the clearing house, thus being forced into insolvency, and in periods of inflation he will lose his customers and his profits, since they will be able to secure larger loans from other bankers. Booms and deflations should be blamed, therefore, not upon the sheep-like bankers, but upon the competitive system of commercial banking. Only the establishment of a complete monopoly in the field of commercial banking can make possible either the deliberate creation of business cycles or their deliberate elimination. This latter end may be achieved under Capitalism by the introduction of sufficient Socialism (government controlled monopoly) into the field of commercial banking and by proper government action to introduce or withdraw bank money from circulation, but it is an open question as to whether Capitalist statesmen will have the intelligence to apply this remedy before the final victory of

Socialism. Every delay in the adoption of this remedy hastens the rise of Socialism because it perpetuates the most glaring evil of Capitalism, periodic business depressions.

It should also be noted that the elimination of business cycles through socialization of commercial banking would eliminate periods of unusual prosperity as well as periods of unusual depression. The result would be, not the elimination of unemployment, but its even distribution over a period of years, for monetary inflation and abnormally high profits are a necessary condition for the full employment of labor under Capitalism. That is why we have only been able to eliminate involuntary unemployment in the United States in such periods as that of 1917-20 or 1942-45. Nevertheless, an even distribution of unemployment over different years is desirable for much the same reasons that fire insurance is desirable; it reduces the total disutility of a given amount of unemployment and makes possible the accurate prediction of the annual cost and, hence, an efficient and permanent system of relief.

One further point concerning the relationship of commercial banking to the business cycle deserves attention. Private bankers tend to increase their loans to business men when business is good and prospective profits are attractive. This condition is ordinarily a result of inflation (defined as a rise in the price level). However, it is precisely at such times that the supply of money ought not to be increased by the extension of new bank loans. On the other hand, private bankers tend to call their loans and to refuse new loans when business is bad and losses are general. Such conditions are ordinarily evidence of dangerous deflation, however, and it is precisely at such times that the supply

of money should be increased. Thus the private interests of commercial bankers are in almost continual conflict with social welfare. That is why their actions cause or intensify the business cycle, although they do not act deliberately but like a flock of unshepherded sheep.

We turn now to a consideration of the second major evil of Capitalist commercial banking, namely, compulsory social saving and the private appropriation of these social savings.

When commercial banks make new loans, and thus raise prices, they give to their borrowers an increased purchasing power which must come from someone, for the granting of a new bank loan does not immediately increase the supply of goods available for purchase. It does not come from the banks, for they do not abstain from consumption or investment. It does not come from depositors in commercial banks, for all of them continue to spend their funds as they please. Rather it comes from the general public who must pay higher prices and who therefore curtail slightly their real purchases. New bank loans like new issues of government money impose a sales tax upon all transactions, the only difference being that the proceeds of the bank tax are loaned to private Capitalists while the proceeds of the government tax are used for public purposes.

The profits of the private banks, however, do not come directly from the proceeds of this sales tax, but from the interest paid for the use of these proceeds by private borrowers. Indeed, the banker must stand ready to repay the entire tax to the public, not when they desire it but when his depositors withdraw and force him to call his loans. As already indicated, this calling of loans and restoration of taxed purchasing

power to the public results in decling prices and a business depression. Moreover, this restoration of taxed purchasing power is as transient as the depression, and every new boom carries the total of expropriated purchasing power to new heights. In 1929 American commercial banks were receiving a 5 or 6% interest income on about 25 billion dollars of such expropriated purchasing power, the sum of which can always be measured by subtracting from total demand deposits and bank notes the cash reserve held against them. In the years 1929–45, the total sum of this expropriated purchasing power increased by about four billion dollars a year on the average, and during the same period banks were receiving an average annual interest income on past expropriations of two to three billions. Thus they were robbing the public of a total of six to seven billion dollars a year during this period. Socialism will put an end to this appropriation of public wealth and income by private bankers and the capitalists who borrow from them.

Certain bourgeois apologists for private commercial banking have attempted to answer the above criticism by pointing out that the profits of commercial banks are little if any higher than the profits of other types of enterprise. If this is so, they ask, how can we accuse commercial banks of appropriating billions of public income?

The answer to this question is twofold. First, a large part of the wealth and income appropriated by the bankers cannot be treated as income but must be treated as capital to be loaned to the capitalists who borrow from them. Only the interest income upon these loans serves directly to increase the profits of the bankers. Secondly, almost all of this enormous

interest income is dissipated upon unnecessary or gratuitious free services to business men and to that small class of well-to-do people who have personal checking accounts in commercial banks.

Competition among commercial banks automatically increases the costs of commercial banking to a level which leaves only average profits. The same thing would happen in any private industry receiving heavy subsidies from the government. Competition for a share in the unearned interest income from wealth taken from the people through compulsory social saving causes commercial banks to erect innumerable costly and superfluous bank buildings. The commercial banking business of the United States could easily be handled in one fourth of the existing bank buildings.

An even more important method of dissipating this unearned income is the gratuitous handling of checking accounts. It has recently become possible for ordinary people to maintain a checking account if they pay five or ten cents for each deposit and each check. However, this is a rare practice, and practically all commercial banks accept deposits and cash checks free of charge for depositors who maintain a sufficient balance. This service costs the banks of the United States hundreds of millions of dollars a year, and the free provision of this service unquestionably increases the demand for it beyond the optimum level.

It should be particularly emphasized that depositors who maintain a minimum average balance do not enable the bank to recover its expenses in handling the account out of an interest income on this balance. Demand deposits are not idle funds, they are a very rapidly circulating media of exchange. Depositors do not abstain from spending their deposits, and banks cannot lend

them to borrowers in return for interest. Every new commercial bank loan is made possible by the creation of new money in the form of new demand deposits or bank notes. Thus depositors make no real payment in the form of abstinence or foregone interest for the free services they receive from commercial banks. Only because their deposits are a necessary basis for the expropriation of public income through forced saving do the banks court their favor with free services for which the public pays.

Although commercial banks are the instruments of expropriation, the capitalist class is the chief beneficiary. It secures innumerable loans at profitable rates of interest, and the banks return to it most of this unearned interest income in the form of free services. The workers also benefit in the long run, for every increase in the supply of capital tends to raise wages, but in a Socialist society they could easily secure the same benefit from compulsory social saving plus all of the unearned income now appropriated by the commercial banks and the capitalist class.

Chapter XV

SOCIALISM WILL ELIMINATE THE WASTES OF CAPITALISTIC INVESTMENT

Under Capitalism most savings are lost as a result of private initiative, the profit motive, and competition in the investment field.

Between five and ten per cent of all savings are invested in fraudulent securities known to be largely or entirely worthless by those who sell them.* Scores of oil and gold mining companies have been organized solely to permit the sale of worthless securities. Individual investors are the chief losers, for large-scale economic organization tends to reduce such losses even under Capitalism. The following brief account (*Time,* January 29, 1934, pp. 43–44) of the life of one of the many men who make their living from stock swindling under Capitalism will serve to illustrate one of the methods used and the extent of this evil:

"Like many another man whose success has been extraordinary, George Graham Rice gave no hint of genius until he was past 30. Just when he abandoned his real name Jacob Simon Herzig no one knows. His youth was punctured with one jail term for grand larceny and another for forging his father's name to a check. Shortly after the turn of the century he founded Maxim and Gray, 'Turf Information Bureau',

*"It has been estimated by the Secretary of the Treasury that over $1,700,000,000 annually is taken from the public by stock frauds." Keyes Winter, *North American Review,* 224:516, November, 1927.

in Manhattan. His 'information' was good and he often sold 5,000 tips a day at $5 each. Having a great love for the horses and no faith in his own tips, he soon dropped the $3,000,000 he had so quickly acquired. But he learned enough about sucker psychology to follow his true calling. And it was not long before he was rated the most successful and the most tireless stock swindler in the U. S.

"His earliest promotions sent him to jail in 1910 in connection with the failure of a brokerage house and he swore he was through forever. He even wrote a big-seller, *My Adventures with Your Money,* exposing all the tricks of his trade. But back he came and this time for big money. To inspire faith among ignorant investors, his 'financial' sheet, the *Wall Street Iconoclast,* attacked margin trading on the New York Stock Exchange, advised widows and orphans to keep their money in savings banks, recommended the purchase of sound listed securities. But the *Iconoclast* also managed to keep such Rice stocks as Idaho Copper, General Mining, and Colombia Emerald constantly in his readers' minds. He even had his own stock exchange, the Boston 'Curb'. When Rice stocks soared, shareholders would receive telegrams from Promoter Rice exhorting them not to sell. Presumably that was just the time that Promoter Rice did his best selling, for *he is estimated to have bilked the public for nearly $25,000,000.*

"On his own admission Promoter Rice has spent a total of $4,000,000 on lawyers' fees in various attempts to keep out of jail, and his attorneys have included Max. D. Steuer and onetime U. S. Senator James Reed. (In 1931 Promoter Rice was brought under guard from Atlanta to Manhattan to stand trial

for evading Federal taxes on an alleged income of $1,800,000 in 1925. As his own attorney he won an acquittal.) But in 1928 George Graham Rice was convicted of using the mails to defraud in the sale of Idaho Copper shares and sentenced to Atlanta Penitentiary for four years. An additional five-year sentence was suspended on condition that he report regularly to a probation officer after release.

"Last spring George Graham Rice arrived in Manhattan, suave, paunchy and in his usual high spirits. On leaving jail he had taken a pauper's oath but reporters found him in a swank 16-room apartment. To a list of 200 names picked at random from among his Idaho Copper stockholders, he sent greetings and asked them if they were 'meeting the challenge' of the New Deal. The response to this 'feeler' was good.

"This week George Graham Rice will have on the newsstands a successor to his defunct *Iconoclast*—a weekly called *Rice's Financial Watchtower,* 25 cents the copy.

"To subscribers Promoter Rice wrote that if the *Watchtower* 'does not prove to be worth $500 a year . . . another year's subscription gratis.' As a postscript he added: 'I shall take occasion very frequently in the columns of the *Watchtower* to state my views as to the status of the Idaho Copper and Columbia Emerald Companies. I think what I shall have to say will prove of great interest to you.'

"Idaho Copper went into receivership in 1929, was pulled out, then slipped in again in 1932. Its stock last sold in 1931 at two fifths of one cent a share. Its production is nil. Colombia Emerald has some emeralds but its mine in the Department of Boyaca, Com-

bia, is closed and its shares were lately quoted at 10 cents a bid."

Capitalism not only permits men like George Graham Rice to flourish but makes inevitable the loss of billions of dollars of savings each year as a result of the purchase of securities believed to be good both by the seller and the purchaser. For this loss, individualism and private initiative among the issuing companies and among investment bankers is largely responsible. If a chain store cannot tell in advance what its competitors will do, it obviously cannot be certain that additional stores will prove profitable. Only complete unification of the retail industry can make possible the most accurate estimates of profits from investments in additional stores. Thus under Capitalism chain stores are certain to sell securities which will prove unsound investments.

Among investment bankers individualism and private initiative inevitably lead to unsound advice to investors. Every bond salesman is interested in selling the bonds offered by his firm, not the bonds best suited to the need of his customer. Since his firm is only one among many, he has only a small choice to offer, but he wishes to sell every customer. Frequently salesmen are offered special premiums for selling bonds which are not moving rapidly because of defects known to the salesmen and the shrewdest buyers but unknown to the ordinary investor.

Competition for business among investment bankers also leads inevitably to an uneconomic increase in selling costs. The United States has two or three times as many security salesmen as it needs. One of the major problems of life for well-to-do investors is how to avoid the attentions of unwelcome stock and bond

salesmen, and the latter in turn find it necessary to prostitute every claim upon friendship or relationship for commercial ends in order to secure admittance to the homes of potential new customers.

Savings banks perform for small investors the same function that investment bankers perform for large savers, and the fact that they can get along without salesmen proves clearly the superfluous character of security salesmen. Nevertheless, there are very significant economic wastes due to competition and private initiative in this field also. In the first place, the number and cost of savings bank buildings is much greater than it need be.

It has long been too easy for bankers with capital and initiative to build a new marble saving bank next door to or across the street from an established bank. The resulting increase in costs per account compels both banks to raise their charges and lower their interest on deposits until two banks can operate profitably on a volume of business previously enjoyed by a single bank.

In the second place, the cost of operating independent savings banks is considerably higher than the costs of operating units in a large chain of savings banks. We have already given many reasons why an increase in the scale of operation yields economies in other industries, and most of these reasons apply here also, so we will not attempt to support this argument in detail.

Insurance companies provide a third important channel of investment under Capitalism. They have a gross income of about ten billion dollars a year, of which one quarter is retained and invested by them. The wastes of private competitive insurance, however, are

startling in their magnitude. In the first place, the cost of competitive salesmanship is very high. According to the census of 1940 there were then 239,142 insurance agents in the United States. Assuming a gross income (i.e. one covering office rent, secretarial service, traveling expenses, etc.) of $3,000 a year on the average we get a total waste of three quarters of a billion dollars. In a Socialist America there would be no need for insurance salesmen, and very little need for insurance itself. The prohibition of private inheritance would eliminate life insurance, and the government trusts and departments would be so large that they would not benefit from fire or accident insurance; in other words, they would find it economical to bear their own losses. It follows from this that Socialism would not only eliminate the costs of maintaining a quarter of a million insurance salesmen, and thus free the public from their unwelcome attentions, but would also eliminate the almost equally large cost of operating the insurance companies themselves. The total saving will therefore be around a billion and a half dollars a year.

In the previous chapter we noted that commercial banks are responsible for the investment of the unintended savings they force the public to make. Governmental units also have and exercise this power to tax the public and invest the resulting forced savings in roads, schools, parks, etc. Thus we see that under Capitalism there are at least six important and distinct types of agencies in partial control of the investment of capital, and that within each of these classes there are thousands of independent units competing with each other and with a correspondingly limited knowledge of the needs of society, and the plans of their

competitors for satisfying them. In a Socialist society, on the other hand, all investments will be controlled by a single agency possessing incomparably more complete and accurate information concerning the return upon capital in every branch of the national economy.

Wise investment is impossible without complete knowledge concerning the return on previous investments. Under Capitalism almost every business enterprise has a different method of calculating its profits, and the results obtained are usually kept secret. In a Socialist economy uniform methods of cost accounting will be used throughout each industry, and all of the data obtained will be available to the national bureau in charge of investment.

Even when proper information concerning investment opportunities in certain fields is available under Capitalism, there are so many competing investors each ignorant of the other's plans that a proper response to this information is virtually impossible. Over-reaction or under-reaction is almost certain. Under Socialism, however, the centralization of all control over investments in the hands of a single national agency will for the first time make posible a proper and prudent response to the available information concerning investment opportunities.

At many points in this book we have explained how competition inevitably leads to duplication of physical facilities for production, in other words, to an uneconomic investment of capital. The economic theory which explains this duplication is perhaps too abstract to interest many readers, but it deserves a brief statement at this point.*

*For a more detailed statement see *The Theory of Monopolistic Competition* (1934) by Edw. Chamberlain, particularly pp. 104–10.

Strictly speaking, wasteful duplication of capital equipment is a result, not of pure competition, but of monopolistic competition. Wherever the number of competitors is so small that any of them can increase his sales by advertising or price-cutting, monopolistic competition exists. Pure competition prevails only when each producer can sell his maximum output at the prevailing market prices without affecting that price and without sales effort. In modern industrial nations farmers are almost the only producers who are in this position and who may be said, therefore, to work under conditions to which orthodox neo-classical economic theory applies.

Under conditions of monopolistic competition the price charged for the product tends to be the same as that which would be charged by an uncontrolled perfect private monopoly. This price yields a maximum profit to a small group of competitors, and no one of them can increase his profit by lowering his price because by so doing he would cause his competitors to lower their prices by an equal amount in order to retain their customers.

On the other hand, monopolistic competition does not keep the costs of production down at the monopoly level. The high profits resulting from monopoly prices attract other producers who duplicate the existing physical facilities of production but who do not lower the monopoly price for the reason given above. Thus the previous volume of business is divided among a larger number of producers, all of whom then have higher costs and surplus capacity. This process continues until profits are reduced to the prevailing level, although prices continue at the monopoly level.

Socialism will eliminate this cause of surplus capacity

by substituting perfect monopoly for monopolistic competition. Perfect monopoly will prevent the unnecessary duplication of existing capacity by new competitors, and will eliminate monopoly profits by lowering prices instead of by raising costs. This in turn will increase the demand for the products of all industries previously operating in conditions of monopolistic competition. Under Capitalism there is a very considerable distortion of optimum demand and, hence, of optimum output of all commodities by the widespread existence of both true private monopoly and monopolistic competition.

In addition to monopoly and monopolistic competition, there is a third factor which causes serious distortion of demand, production, and capital investment under Capitalism. This is the necessity, under which any private enterprise labors, of covering the full costs of production. Here again we have to do with a point of abstract economic theory, but it is of considerable importance for Socialists.

It has long been recognized by bourgeois economists that in industries of increasing costs, for instance agriculture, market prices ought to be equal to the marginal costs of production. They are slowly becoming aware of the fact that the same principle is valid in industries of decreasing costs. This latter application of the principle is practical only under Socialism, however.

When the products of agriculture are sold at the marginal cost of production, intra-marginal producers receive a large surplus called rent. However, if automobiles were sold at the marginal cost of production (the additional costs of producing one more care), all automobile manufacturers would incur a constant heavy loss which we may name negative rent. This is im-

possible under Capitalism. Hence, automobile manufacturers charge a price high enough to cover their average costs, which are much higher than their marginal costs. As a result, the output of automobiles is far below the optimum level, for the production of additional cars would bring in a revenue more than sufficient to cover the additional costs of producing them. Under Socialism the output of automobiles, and all other products of industries of decreasing costs, will be increased to the optimum level where market price equals marginal cost. The negative rent created in this way will be offset by ordinary or positive rent derived from other industries plus, if necessary, income taxes. This will bring about a different and more desirable distribution of invested capital among individual industries, and a considerable increase in the size of the national income.

One further serious defect of Capitalistic investment deserves attention in this chapter. Capitalism grossly neglects the most vital and most productive of all fields of investment, scientific research. On the average, capital invested in this field during the past century has yielded a return of several hundred per cent. For instance, the total amount of money spent upon scientific research in the United States in the past century, including all the efforts of inventors like Ford and Edison, was probably less than ten billion dollars. In 1941 the income of the United States was about one hundred billion dollars, at least half of which was due to the scientific research of the previous century. This gives an annual return of 500% on the investment, which is a very conservative estimate. An estimate of 1000%, or even of 2000%, might result from a reasonable revision of our basic figures.

During the past ten years, the United States has probably spent less than one half of one per cent of its total national income upon scientific research, yet this research work has increased the money income of the nation several times that amount already, and will increase it much more in future years as it is more widely applied. There are many individual inventions, like the cracking process of refining gasoline, the Besemer process of producing steel, the telephone, the moving picture, and the new Rust cotton picker, which already yield or promise soon to yield enough income to pay the entire interest cost on all the capital ever invested in scientific research in the United States.

The monetary return from scientific research, however, is only one result of research. A Soviet physician in Odessa, Dr. Filipov, discovered an operation for curing the blindness of four out of ten blind persons. Obviously the monetary payments for such operations would not measure the full benefit of this discovery. Innumerable other discoveries of this sort have resulted from scientific research in the past century. Social welfare, military strength, the progress of civilization itself all depend more upon scientific research and invention than upon anything else.

With these enormous monetary and psychic returns from scientific research, it is obvious that national expenditures upon it should be vastly increased. At least a tenfold increase is immediately desirable, and perhaps much more.

Private enterprise, however, is inherently incapable of making these much to be desired expenditures upon research. Even today the bulk of all scientific research is carried on by government bureaus, state universities, and endowed universities and institutes, in other words

by islands of socialized capital in a sea of Capitalism.

There are a number of reasons why private business men inevitably neglect scientific research. In the first place, Capitalism results in competition among many small enterprises in certain industries, and few of these small enterprises have the capital required to finance scientific research. In the second place, although research is, on the whole, enormously productive, many if not most individual research projects are unproductive. The nature of research is such that one successful project out of a hundred pays a return of 100% on the capital invested in the entire hundred. Business men, however, do not like to gamble. Only when they can afford to carry out several hundred projects and thus assure themselves of at least one success and a return upon their investments, can they look upon scientific research as a sound business rather than a speculation. Thus we find that General Motors, Standard Oil of New Jersey, and a few other such companies have large and efficient research laboratories, but the average farmer or independent retail merchant spends nothing on research.

In the second place, even big companies neglect research because most of the benefits of research accrue to their competitors and the public. Patents have a short life which usually expires before the maximum profits from an invention begin to appear. Yet investments in research should be based upon total returns over a long period of time, not upon the small profits earned during the period of initial development. Patents, moreover, are frequently infringed, in spirit if not in letter, and thus fail to return a due profit, one which reflects the value of the invention, even during the development period. Also, even if a firm were

granted a perfect and permanent monopoly on every invention resulting from his investment in scientific research, about half of the measurable benefits from its research would accrue to the public in the form of a consumers' surplus. In other words, the average consumer would derive far more benefit from his purchase than that represented by the price paid.

We are not now arguing for a perfect and permanent monopoly upon every new invention. We are simply pointing out that it is very unwise to depend upon private profit as a stimulus for scientific research when so small a share of the benefits of scientific research can be turned into private profits.

A Socialist government will be in a position to display a far greater interest in scientific research than any Capitalist government because it will not only be aware of and interested in the total benefit from scientific research but will also control the investment of the entire supply of capital. It will carry investment in this field to the point where the marginal return upon the capital invested is 4% instead of 400%. The result will be a very marked increase in the speed of human progress, which is largely dependent upon scientific research.

Chapter XVI

SOCIALISM WILL ELIMINATE CAPITALISTIC WASTES IN OTHER INDUSTRIES

Socialism will eliminate gross waste due to Capitalism, not only in the major fields of economic activity already discussed, but also in many minor fields not yet mentioned.

In the first place, let us consider the real estate business. In 1940 there were about 136,000 real estate agents (10% women) in the United States. Many of them had stenographers, secretaries, or other clerical help, and nearly all of them had offices. If we estimate the total expense and income of the average agent at $4,000 a year in 1940, we get a total social cost of one half billion dollars a year. At least ninety per cent of this expense would be eliminated by Socialism, for there would be no purchase and sale of business properties, or multi-dwelling residential properties, and perhaps none of single family residences. Moreover, whatever legitimate real estate business remained would be conducted in a far more efficient and economical manner.

Under Capitalism there are three or four times as many real estate agents in the average community as are needed to transact the existing volume of business. Consequently, they spend most of their time waiting or looking for business. Under Socialism the number

would be reduced until each agent was actually busy transacting business most of the time.

Competition is particularly undesirable in the real estate business because it results in a great waste of the public's time and patience. When a man and his wife start to look for a new home in the average American community, they must visit the office of every real estate agent in town in order to secure complete information concerning all listed vacancies. Since the number of agents is usually large, few people visit all of them. As a result, they usually fail to find the home best suited to their needs, although they have spent much more time looking for it than ought to be necessary to find it. Under Socialism all this will be changed. All vacant homes and apartments will be listed, with photographs of the interior and exterior and all other useful information, at a single conveniently located real estate office. This will save a great deal of shoe leather and gasoline, and will result in a far better choice of homes.

Another field in which the same kind of waste and inefficiency prevail under Capitalism is that of employment agencies. There are far too many of them, in the first place, so that their managers spend little time actually placing men, and, in the second place, competition results in vast inconvenience to the public. If an unemployed worker desires complete knowledge concerning all available jobs before making his choice, and no choice is more vital to him than this, he must visit every single employment agency and every single business concern. This is obviously impossible in most cases. Thus, although he ordinarily wastes a great deal of time in looking for a job, the average unemployed worker is never in a position to make the best choice

between all available jobs and, therefore, inevitably fails to select the job best suited to his needs and abilities. It may seem ironical to speak of the unemployed as having any choice whatever between jobs. We are here assuming a period of unusual business prosperity.

Conversely, competition among different employment agencies and offices prevents the employer from finding the best available man for the position he wishes to fill. In times of business depression there may be thousands of men available, but they are listed with scores of different employment agencies and personnel offices, none of which have anywhere near a complete and carefully graded list of them. Hence, the employer is never in a position to make the wisest choice among the available men.

The obvious and simple cure for this situation is to establish in each community a single monopolistic employment agency with power to require all employers and workers seeking new jobs to list their needs with it. This is very much needed under Capitalism, though it would amount to the introduction of some Socialism into one small industry, but it would be much less necessary under the type of Socialism outlined in Chapter III of this work. In that chapter we explained that every worker would be given the right to demand work for which he was qualified wherever it was being carried on. The granting of this right, besides increasing the freedom of the worker, would make even a single monopolistic employment agency much less needed, as every unemployed worker could simply demand and receive any job for which he was qualified. However, some sort of agency to compile and distribute information concerning wages, working conditions, and types of work available in all plants, particularly those in

distant places, would still be desirable in order to increase the success of each individual worker's search for the ideal job.

Let us consider now another minor field of economic activity in which the wastes of Capitalism are very obvious and very large, the field of speculation in securities and commodities.

In 1929, 1,125,000,000 shares of stock and about $3,000,000,000 worth of bonds were sold on the New York Stock Exchange. Total brokerage commissions on these transactions probably exceeded six hundred million dollars. Over the past ten years, of course, the average has been much less but it may rise at any time. Another way to indicate the magnitude of this cost is to take the figure of 71,000 stock brokers given in the 1930 census and multiply it by $7,000 as an estimate of gross income per broker. This gives us an annual total cost of $497,000,000, which checks roughly with the above estimate. This entire cost is a waste due to Capitalism. There would be no stock exchanges and no dealings in private securities in a Socialist economy.

The cost of supporting brokers is, of course, only one, and perhaps not the most important, economic evil resulting from the existence of private securities and security markets. At least 90% of the transactions on the New York Stock Exchange are speculative in nature. They do not represent new or relatively permanent investments, but gambling on the course of security prices. As a result of this gambling, many billions of dollars are lost and won each year. Hundreds of thousands of men lose, in part or in whole, the savings of a lifetime, and other hundreds of thousands secure large or small incomes without performing any productive labor. A basic principle of Social-

ism is that no one should receive an income unless he works to earn it. Socialism would eliminate speculation in securities as a source of wealth and income, and at the same time would protect savers against a temptation to risk and lose their savings.

All that we have said with respect to security exchanges applies with equal force to commodity exchanges. The entire wheat crop is bought and sold ten times a year on the Chicago Board of Trade. Obviously this is largely undesirable speculation, and it causes increased fluctuations in the price, thus affecting both farmers and processors adversely. Speculators as a class include more suckers than winners. They tend to buy when prices are already too high and to sell when they are already too low, thus distorting the price structure still further.

Still another minor industry which involves a striking economic waste under Capitalism is the small personal loan industry. Before the depression of 1929-40, pawnbrokers, personal finance companies, and unlicensed lenders received an annual interest income of about $800,000,000 on a capital of the same amount, the average interest thus being about 100%.* This does not necessarily mean that these lenders earned unusually high profits, for competition tends to reduce profits to the prevailing rate in other industries. What it does mean is that the cost of making personal loans of this class is extraordinarily high under Capitalism. A Socialist government would refuse to permit many of these loans, in the first place, for most of them are probably against the best interests of the borrowers,

*Evans Clark, *Financing the Consumer* (1930), pp. 30, 119–22, 219.

and, in the second place, it could make desirable personal loans at a cost at least 90% less than that prevailing under Capitalism. A Socialist government would employ all labor and could easily deduct all debts due it from the wages and salaries paid to its citizens. Thus there would be no risk of credit loss and no cost of investigating credit ratings. Of course, most credit losses on personal loans are now due to poverty and unemployment, both of which would be eliminated by Socialism.

Chapter XVII

SOCIALISM WILL ELIMINATE THE WASTES OF CAPITALISTIC GOVERNMENT

The inefficiency of modern governments, and particularly of our own, is a fact frequently stressed by the opponents of Socialism. In truth, however, this is an argument against Capitalism rather than against Socialism. Our government is controlled by capitalists, and exists in a Capitalistic environment. These are the basic reasons for its inefficiency. By eliminating them, Socialism will bring about a great improvement in the efficiency of government.

Our government was planned by men who did not believe in state control of industry and agriculture. Such men were in control of the original constitutional convention which framed our federal constitution, and have controlled every state convention called to frame a state constitution. Moreover, the ruling class has educated and controlled the judges who have interpreted these constitutions and has blocked amendments required to bring them into harmony with the entirely different conditions of modern life. As a result, the structure of our government is itself a serious barrier to efficient government.

The most obvious feature of this structural weakness is the division of powers among the chief executive, the legislature, and the judiciary. When a desirable reform, such as a law against child labor, is finally approved by one of these three powers, it is almost certain

to be vetoed by one of the other two. This makes all reform excessively slow and difficult to achieve. No Capitalist would dream of introducing such a division of authority in his own business or corporation, but he is ready at all times to defend it in government. Economic self-interest is the explanation for both stands. Business efficiency means increased profits, government efficiency threatens to reduce his profits and perhaps eventually to take his economic function away from him.

The existing improper division of powers between federal, state, and local government is a similar evil zealously defended by business interests. If states are unable to pass child labor laws without driving industry to other states, it is obviously desirable to business men that states alone have the power to limit child labor. Here again the Capitalist class uses an entirely different and far more efficient method of organization in its own corporations. No corporation grants sovereignty or absolute independence to any of its many plants or branch offices.

There are many other major defects in our governmental structure which are not found in corporations. No corporation has two boards of directors, like the federal House and Senate, and no board of directors has five hundred members, as the federal House has. Moreover, the chief executive of a corporation has power to make new rules (laws) on his own initiative. Indeed, he could not run his corporation efficiently in the absence of this power. Finally, the stockholders of a corporation do not vote on a ballot containing several hundred names. They do not elect any officers directly, while a citizen may vote on the election of fifty to a

hundred different officials, from President of the United States down to the village dog catcher.

It is not necessary at this point to consider in detail the many important problems to be settled before the best structure for a Socialist government can be decided upon. We shall merely express our opinion that the structure of a Socialist government in the United States should be far more like that of General Motors, or almost any other great corporation, than like the present structure. It will, of course, be necessary to provide for democratic election of the members of the national board of directors, with proportional representation for all parties, but the main features of administrative, legislative, and judicial structure should be that found in the typical American corporation.

This means, among other things, that the great majority of questions now settled or left unsettled by legislative bodies and courts will no longer require separate legislative or judicial consideration, but will be settled by administrative officials and business executives as a part of the day's work. For instance, it will no longer be necessary for the national legislature to pass laws concerning building specifications and inspection, the constituents and labeling of foods and drugs, the grading of fruit and vegetables, the use of clean towels in barber shops, the use of safety devices in industry, and so forth. All such matters will be acted upon by the appropriate business executives, and there will be no profit incentive to an anti-social solution of these problems by these executives. This will leave the national legislature free to concentrate its attention on basic social problems, and will thereby considerably increase its efficiency.

Both Socialism and this form of organization would

convert a great deal of judicial work into administrative work. At present, all suits between independent corporations require judicial hearings, but under Socialism such suits will be converted into administrative problems to be settled by higher executives. Most criminal cases will remain outside the scope of business routine, but these cases will be treated much as ill health is today. Criminals will be sent to mental sanitoriums for re-education or reconditioning, unless incurable, in which case they will be treated like those suffering from incurable diseases. Thus, there will be left few civil or criminal cases for court action.

The possibilities of increased efficiency in government as a result of the elimination of capitalist control over government are much greater than the possible gain from an improved and simplified structure of government. The losses due to capitalist control may be greater than the entire current cost of government, for Capitalistic government results in many hidden wastes of enormous size. We have space to consider only a few of these major costs of capitalist control over government, but these will serve to give a clear idea of the size and significance of the total cost. Let us consider first the case of the protective tariff.

At one time in our history, protective tariffs were justifiable as a means of promoting the growth of domestic industry, but today the vast majority of American tariff duties have no excuse whatsoever. Our steel industry is the largest and most efficient in the world, but it enjoys protection against foreign producers, and is constantly clamoring for higher tariffs on imported steel. This demand for tariff protection by industries which do not deserve it and the ability of such industries to secure tariffs are almost inevitable consequences

of Capitalism. Protective tariffs increase some private profits, regardless of whether they are socially justifiable or not. Hence, there is certain to be a very intense demand for them as long as the private profit system endures. This demand is almost certain to be satisfied because it comes from the class which controls the press, the radio, the universities, and the pulpit and is therefore able largely to determine public opinion. Moreover, capitalists who desire protective tariffs are able and willing to make large contributions to the campaign funds of candidates for Congress, while the millions of citizens who will lose a few cents apiece each day as a result of a proposed tariff are not willing to make large contributions to the campaign funds of those candidates who will oppose it.

The total cost of the protective tariff to the American people is hard to measure, but it is several billion dollars a year. Customs receipts have recently been about five hundred million dollars a year, but this represents merely a transfer of wealth, not an economic waste. The real national cost of the tariff is the higher price we must pay for innumerable articles produced in this country at uneconomically high costs. Many tariff duties are so high that they actually or virtually exclude all imports and thus raise scarcely any revenue, but they are costly to consumers since they increase the cost of living.

American capitalists have deceived the workers into believing that high tariffs increase the number of jobs and raise wages. These arguments are rejected by virtually all economists, but the opinions of the latter cannot prevail against the paid propaganda of the capitalists. By eliminating both unemployment and this paid propaganda, Socialism will permit the victory

of sound economic theory in regard to protective tariffs.

Most of the above reasoning concerning protective tariffs applies with equal validity to subsidies for individual industries and to bounties on the export of individual commodities. Subsidies and bounties are less numerous than protective tariff duties, but they are equally undesirable in most cases. Under the New Deal, subsidies to American agriculture averaged about $700,000,000 a year from 1934-41, and it is quite possible that American workers will be indefinitely burdened with a subsidy to agriculture of this size or larger. Due to our undemocratic federal and state constitutions and laws, the farmers, who make up only 25% of the population, control over 51% of the representatives in the great majority of American legislative bodies. Under Capitalism, moreover, their interests diverge sharply from those of urban workers. Socialism will largely eliminate this difference of interest by making it possible for farmers and farm laborers to obtain city jobs at city wages whenever they want them, and, conversely, by granting a similar privilege to urban workers. If labor is perfectly free to shift from agriculture to industry, or *vice versa,* there will be no demand for subsidies to raise farmer's incomes to the level of city incomes. Indeed, it would become virtually impossible to raise farm wages by granting subsidies, for any increase in wages would attract labor from other occupations, thus automatically lowering farm wages to the level prevailing in other industries.

Farmers are not the only group of laborers who have persuaded legislative bodies to pass laws benefiting them at the expense of the community. Our state and city governments have passed many such laws.

For instance, we have state laws requiring railroad trains to carry an uneconomically large crew, limiting the length of freight trains at an uneconomically low level, restricting the number of professional men in an uneconomic manner, and so forth, and we have numerous city ordinances, particularly, in the field of building specifications, which protect the interests of certain groups of workers at the expense of the community. In many cases, unreasonable city building ordinances have raised all building costs from ten to fifty per cent. There are innumerable union rules which have the same effect. However, we can scarcely blame workers who are constantly threatened with unemployment and poverty for attempting to increase the volume of work available for them. This is natural and inevitable under Capitalism. Only Socialism can remove this powerful drive towards uneconomic legislation by removing all fear of unemployment. Only Socialism can make such legislation futile by creating the necessary mobility of labor. If new workers can enter a given field freely, it is useless to try to raise wages in this field by special legislation.

Turning to a different field, we find in American immigration laws a beautiful illustration of the inefficiency of Capitalist government. For at least fifty years European immigration has had a powerful depressing effect upon American wages, and particularly upon the wages of the poorest paid American workers, unskilled laborers. The great reduction in immigration due to the World War and to post war immigration laws was probably the principal reason why American real wages were 30% above the pre-war level in the years 1923-29. These post-war immigration laws were supported by American trade unions and opposed by

the capitalist class. In part they were circumvented by large-scale importation of Mexican, Philippine, and Puerto Rican labor. In 1930 the census showed 300,000 Mexicans in Los Angeles County, the vast majority of whom had been imported and employed by anti-union employers in the previous decade. Even with the post-war laws restricting European immigration, a total of 4,395,510 immigrants arrived in the United States in the ten years 1920-29. This immigration was welcomed by the capitalist class because it lowered wages, provided a reserve army of unemployed, and delayed unionization. As long as Capitalism lasts, there will be a powerful profit motive opposing all immigration laws in the interest of the American working class. Socialism will eliminate this profit motive and facilitate the enactment of sound immigration laws. Over a period of years this will result in a wage level materially above what it would be with continued large scale immigration.

In the field of labor and social legislation also, the profit motive leads the capitalist to oppose sound legislation. It was once argued that a law reducing the hours of labor to ten per day would destroy all profits because these amount to less than 10% and are all earned in the last hour of labor. Time has proven the error of this argument, but it has not put an end to capitalist opposition to an eight-hour day law. The interests of the individual employer are in conflict with the interests of his workers on this matter. The employer desires to secure the maximum output per worker *while that worker is in his employ*. The worker desires to secure the maximum total satisfaction from both work and leisure *for his life as a whole*. Overwork may temporarily increase present output at the

expense of the satisfactions of leisure, but it decreases the total present satisfactions of the worker and in the long run decreases total output. Since the individual capitalist is not responsible for the future health of his workers he finds it profitable to overwork them. Socialism will eliminate this profit incentive to overwork.

For much the same reasons, the capitalist class has traditionally opposed the abolition of child labor, social insurance of all kinds, and many laws designed to improve working conditions. Sound legislation on these matters will meet far less opposition under Socialism.

The complexity of the organization of Capitalistic government and industry makes the collection of taxes very expensive. The president of Montgomery Ward and Company has stated that his company is required to file more than 1600 tax returns a year. These returns tend to be elaborate and costly affairs because of the many varieties of income and costs experienced by such a Capitalistic corporation. *Time* has estimated the total national cost to taxpayers of preparing and filing income tax returns alone at one billion dollars a year (April 6, 1936, p. 64). The cost to the public of preparing all tax returns is two or three times the cost of preparing income tax returns alone, and the cost to the government of receiving and checking these returns must also be very large.

Socialism would render unnecessary the great bulk of these costs of tax collection. Since almost everyone would work for some state trust or department and have only one important source of income, his wage or salary, it would be possible to dispense with nearly all income tax returns and deduct any desired income tax at the source. This would eliminate tax evasion as

well as saving the billion dollars now spent in preparing individual returns. Other types of tax returns would also be largely eliminated. Higher income taxes would make general sales taxes unnecessary. Social ownership of land and capital would render the property tax superfluous. Even the collection of the few remaining special purposes taxes, such as gasoline and liquor taxes, would be far more economical, since all gasoline or liquor would be sold by a single chain of retail outlets and only one tax return would be necessary for each tax. Many other illustrations of the way in which Socialism would reduce the costs of tax collection might be cited, but the above cases show a saving of several billion dollars a year.

Finally, the change from Capitalism to Socialism will result in a very great, at least 50%, reduction in the social cost of corruption among governmental and private employees and other forms of crime. The total annual cost of crime in the United States may be very roughly estimated at $9,000,000,000 a year, or about one tenth of the national income (1941). Some estimates run more than double this one.

Socialism will reduce dishonesty of employees and other forms of crime both by diminishing the incentive to crime and by greatly simplifying the task of detecting crime. It will eliminate the spectacle of great private riches and luxury. It will eliminate the private business men who now find it profitable to bribe the employees of private and public organizations. It will provide far greater equality of opportunity. All these things will reduce the incentive to crime.

Socialism will also make it relatively easy to detect crime and catch criminals. There will be but one source of income, employment by the government or some

private person, and all who lack this source of income will be obvious suspects. Every government trust or department, moreover, will obtain a record of a worker's past employment when he begins to work for it. All payments of over a few dollars will be made by check on the state bank, and every man's bank statement will give full information to the bank auditors and police concerning his income and expenditures. There will be no place to spend a cash bribe or theft, since all retail stores, hotels, garages, cafes, and so forth, will be operated by state trusts which accept only checks on the state bank, and bank deposits can not be transferred or stolen without leaving an obvious record. With a few additional refinements already desirable under Capitalism, such as a central file of fingerprints, signatures, photographs, physical measurements, occupational data, and similar information for every person over the age of 16, the use of fingerprints on all doubtful checks, and the publication of the photographs of criminals on the front pages of every newspaper in the country, undetected crime will be largely eliminated.

For these reasons, Socialism will result in a very great reduction of dishonesty among employees and of all other forms of crime. The common charge that Socialism will increase bribery and corruption beyond all endurance has no justification whatsoever. Rather Socialism will save the nation several billions of dollars a year by reducing dishonesty and crime.

Chapter XVIII

THE LESSON OF WORLD WAR II

The effect of World War II upon the real national income of the United States is a new and striking proof of the incredible inefficiency of private enterprise. In 1939, the last year largely unaffected by World War II, the national income was only $71,000,000,000. By 1944 it had risen to $161,000,000,000. In 1939 private business controlled production. In 1944 the government controlled the volume of production, and compelled business men not only to produce far more than ever before but also compelled them to use more efficient methods of production than ever before. And this great increase was achieved by a Capitalist government reluctant to adopt many of the most obvious methods of increasing output by means of additional measures of government control over private industry.

Not all of the increase in the dollar value of the national income from 1939–44 reflected an increase in real income. The cost of living rose about 25% from 1939 to 1944. This means that of the increase from 71 to 161 billion dollars in this period about 32 billion represented a rise in prices. The net increase in real income was 44 billion dollars, which is about 60% of the 1939 income.

During the five year period 1939 to 1944, there was not only a 63 billion dollar increase in the output of war supplies; there was also a 36 billion dollar increase in the production of consumers' goods. Millions

of American workers enjoyed for the first time in their lives the pleasures of good pay and a steady job. They continued to enjoy the latter as long as war-time government control over private industry continued. As soon as the control of production was restored to private business men, this unusual condition quickly vanished. Unemployment increased steadily for many months and the national income fell off sharply although millions of additional workers were available.

In 1944 our total expenditures for war purposes amounted to almost 90 billion dollars, and civilians had a higher standard of living than ever before. If 90 billion dollars a year can be spent to win a war against the Axis, an equal sum could be spent each year by a Socialist government in time of peace to win the war against poverty, disease, and ignorance. Let us consider just what this would mean.

The expenditure of 20 billion dollars a year for five years on housing would give 20 million American families a new five-room $5,000 home equipped with all modern conveniences.

The expenditure of 10 billion dollars a year for five years on the planning and rebuilding of American business districts, urban streets, schools, parks and playgrounds would make every part of every American city as attractive as a choice residential district.

The expenditure of 15 billion dollars a year for five years on the renovation and reequipment of the better half of our existing factories and on the replacement of the others with model plants would increase our factory capacity without any additional workers by at least 50%.

Wartime government-controlled industrial mobilization stimulated the production of machine tools to the

point where two years' output was larger than the value of all machine tools in use in the United States in 1939. Capitalist thinkers are busy worrying about how to plow under this vast new addition to our productive power now the war is over. A Socialist government would not only see to it that all these new machine tools continue in use, but would use the expanded capacity of the machine tool industry to achieve an even larger output of labor-saving machinery.

An expenditure of 10 billion dollars a year for new barns, silos, fences, tractors, combines, fertilizer plants, and other agricultural improvements would enable us to produce 20% more food and fibre with 50% less labor than is now employed in agriculture.

An expenditure of 15 billion dollars a year for five years on education would enable us to reduce the size of the average class from 30 to 10 students, increase tenfold the value of books and other equipment per child, double the pay of all teachers, and replace every school building in America over 10 years old with a finer and larger one. It would also pay for a thorough vocational training course in the evening for every adult in the United States.

An expenditure of 10 billion dollars a year on medical and dental education and care would increase by 300% the number of doctors and hospital beds and would make possible the proper treatment and cure of most sick persons under 60. It would virtually wipe out all infectious diseases, and would increase the length of life of the average American worker by five to ten years.

An expenditure of 5 billion dollars a year on scientific research, over ten times the present rate, would increase by several hundred per cent the rate of tech-

nological progress, medical discovery, and social reform. It would also provide a satisfying creative life for a million research workers and vastly increase public appreciation of science and the search for truth.

An expenditure of 5 billion dollars a year on the fine and applied arts would support a million artists and would make available to every American the finest art of the past and the even finer art of the future. It would develop an unprecedented public appreciation of the work of the artist and would fill our cities and homes with utilitarian objects of great beauty.

But only a Socialist government would be willing and able to spend 90 billion dollars a year in this manner. A Capitalist administration will spend such sums to fight the Axis but it will not spend such sums to fight poverty, disease, ignorance, and ugliness. Now that World War II is over, millionaire-owned newspapers, magazines and radio stations will raise a tremendous hue and cry about economy, which means refusing to spend money to put the unemployed to work, about private initiative, which means freedom for big business men to be monopolists and small business men to be inefficient, about private property, which means private inheritance of unearned wealth, and about local self-government, which means costly and uncoördinated public administration. Government measures to deal with mass unemployment will be halting, niggardly and tainted with charity. Instead of having a national plan for building health, wisdom, beauty and plenty we shall face again all the social evils so glaringly apparent in the period between World War I and World War II.

It is solely a matter of time, however, until America learns that efficiency, equality, and state planning are

as beneficial in time of peace as in time of war. For reasons discussed in an earlier chapter, the growth of Socialist thought is steady and inevitable. The example of successful Socialism in Russia and other European countries will hasten the rise of Socialism in America. The triumph of Socialism in America is certain. Only Socialism can achieve the oldest and finest American ideals! Only Socialism can provide the leisure and income required to permit every worker and farmer to marry young and raise healthy, happy children without sacrificing any of the other good things of life, such as education, travel, beauty, science, recreation, and social activities. Only Socialism can make America a land of equal opportunity, industrial and political democracy, personal freedom, economic plenty, and social security!

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